

Legislative Council Panel on Housing

**Review of the Income and Asset Limits
for Public Rental Housing for 2016/17**

PURPOSE

This paper briefs Members on the outcome of the review of the income and asset limits for public rental housing (PRH) for 2016/17.

THE REVIEW

2. The outcome of the review is set out in the Memorandum for the Hong Kong Housing Authority's Subsidised Housing Committee (SHC) as **attached**. Overall, the proposed PRH income and asset limits for 2016/17 will increase by an average of 8.9% and 2.7% respectively over those for 2015/16.

3. Members are invited to note the outcome of the review, which will be considered by the SHC on 15 March 2016.

**Transport and Housing Bureau
March 2016**

Memorandum for the Subsidised Housing Committee of the Hong Kong Housing Authority

Review of the Income and Asset Limits for Public Rental Housing for 2016/17

PURPOSE

This paper seeks Members' endorsement of the proposed income and asset limits for public rental housing (PRH) for 2016/17.

BACKGROUND

2. It is the Hong Kong Housing Authority (HA)'s objective to provide PRH to low-income families who cannot afford to rent private accommodation. The eligibility of PRH applicants is determined by way of the PRH income and asset limits, which measure the total household income required to rent private accommodation comparable to PRH while also meeting other non-housing expenditure. Households with income and assets below the prescribed limits are deemed to be unable to afford renting private accommodation, and hence are eligible for PRH^{Note 1}. The limits are assessed annually to keep them in line with the prevailing socio-economic circumstances.

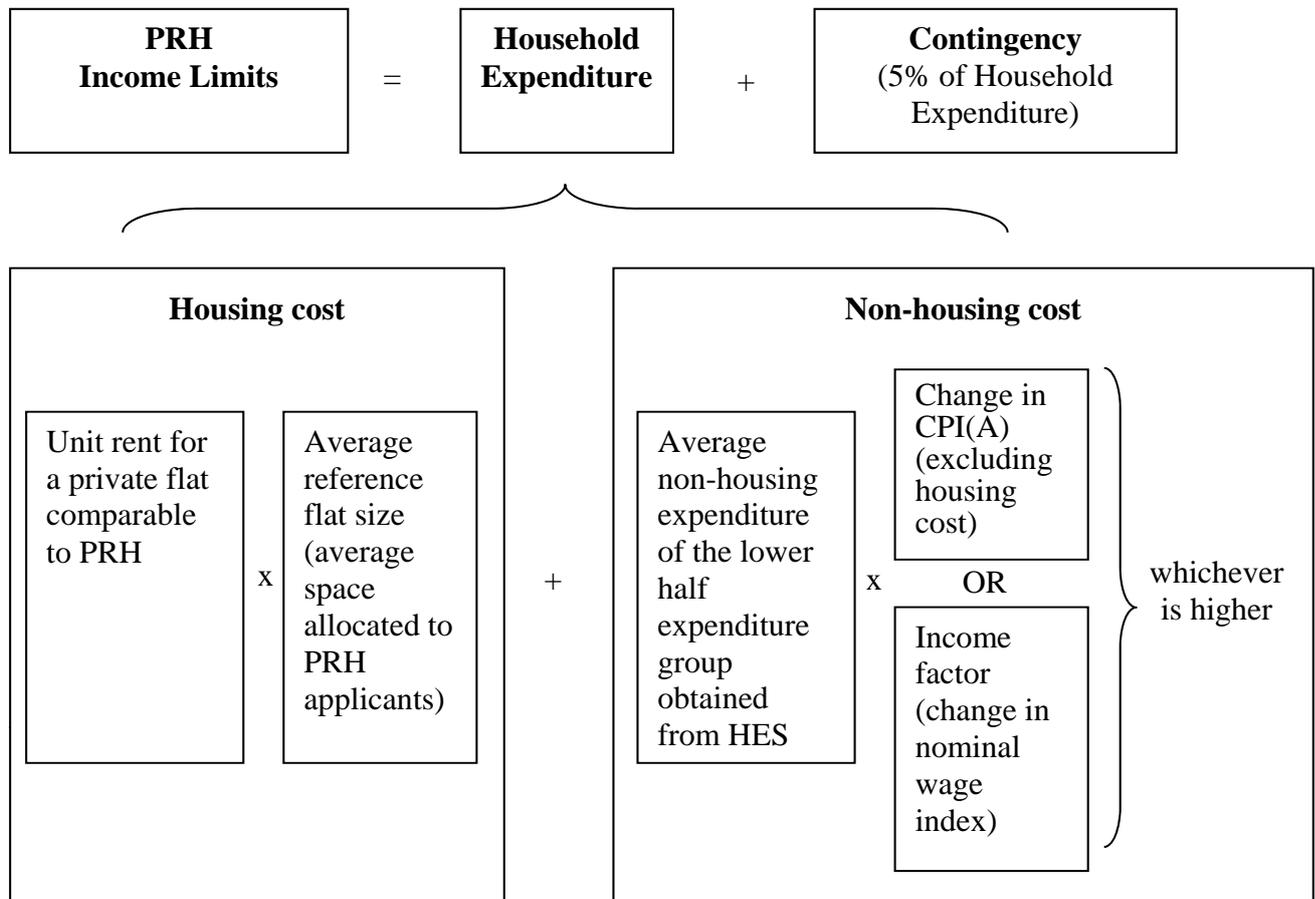
REVIEW OF THE INCOME LIMITS

Review Mechanism

3. Under the established mechanism, the PRH income limits are derived using a household expenditure approach, which consists of housing costs and non-housing costs, plus a contingency provision. Housing costs measure the cost of renting a private flat comparable to PRH. This depends on the differential unit rents of private accommodation and reference flat sizes. The non-housing cost is determined with reference to the latest Household

Note 1 Applicants also need to meet other eligibility criteria for PRH (e.g. applicants and their family members must not possess any domestic properties in Hong Kong; at least half of the family members included in the application must have lived in Hong Kong for seven years and are still living in Hong Kong at the time of allocation, etc.)

Expenditure Survey (HES) conducted by the Census and Statistics Department (C&SD), with adjustments made according to the latest movement in the Consumer Price Index (CPI)(A)(excluding housing costs), or the change in the nominal wage index obtained through the Labour Earnings Survey (LES) conducted by C&SD as the income factor ^{Note 2}, whichever is higher. The PRH income limits for different household sizes are the respective sums of the above two major cost items, plus a 5% contingency provision ^{Note 3}. The mechanism is summarized in the following diagram -



Note 2 The Subsidised Housing Committee (SHC) approved at its meeting on 7 February 2013 the refinement to the mechanism for reviewing the PRH income limits, whereby the change in nominal wage index was introduced as the income factor to reflect changes in income (including implementation and changes of the Statutory Minimum Wage (SMW)) in a timely manner before the HES results are updated. The change in nominal wage index was considered to be a suitable yardstick to gauge changes in income of the PRH target group and to reflect the impact of SMW on income, because it covers occupational groups at non-managerial/professional levels (e.g. technical, clerical, service workers and craftsmen) who are most likely to be the potential applicants for PRH.

Note 3 Following established practice, the PRH income limits are rounded to the nearest ten.

4. The movements of the key parameters over the years to be covered in the review of PRH income limits are set out as follows –

Table 1

Parameters	Review for 2015/16	Review for 2016/17
	<u>4Q 2014</u>	<u>4Q 2015</u>
(a) Differential unit rents of private flats (per m ² Internal Floor Area (IFA))		
- 1-person	\$294	\$332
- 2-person	\$285	\$297
- Overall	\$269	\$297
	<u>2011/12 – 2013/14</u>	<u>2012/13 – 2014/15</u>
(b) Reference flat size ^{Note 4}		
- 1-person	14.8m ²	14.9m ²
- 2-person	22.3m ²	22.4m ²
- 3-person	30.0m ²	29.7m ²
- 4-person	35.9m ²	35.0m ²
----- (Details of other household sizes are set out at Annex A)		
	<u>4Q 2014</u>	<u>4Q 2015</u>
(c) Change in CPI(A)(excluding housing cost) as compared with the same quarter of previous year	+4.5%	+2.1%
	<u>3Q 2014</u>	<u>3Q 2015</u>
(d) Change in nominal wage index as compared with the same quarter of previous year ^{Note 5}	+4.0%	+4.4%

Note 4 The reference flat sizes are based on the average space (in terms of IFA) of flats allocated to PRH applicants in the past three years. All Home Ownership Scheme (HOS) flats which were transferred to PRH and 3-bedroom flats allocated to 4-person households are excluded from the calculation. This is because the basis for assessing housing costs is to assess the cost of renting a private flat comparable to PRH. It is therefore not appropriate to include those flats transferred from HOS into PRH and the 3-bedroom flats allocated to 4-person households into our calculation of the reference flat sizes, taking into account the fact that these flats were not designed and allocated according to the normal PRH standards.

Note 5 As the summary statistics of LES are presented in the Quarterly Report of Wage and Payroll Statistics published by C&SD in March, June, September and December each year, the SHC agreed at its meeting on 7 February 2013 that a yearly comparison can be made by using figures published in December (i.e. the nominal wage index in the third quarter) to fit in with the established schedule for conducting the review of PRH income and asset limits for the new limits to come into effect on 1 April every year.

Housing Costs

5. Under the established mechanism, housing costs include rent payment, rates, Government rent and management fees required for a household to rent a private flat of comparable size to PRH. The exact figure is obtained by multiplying the reference flat size (i.e. average space allocated to PRH applicants in the past three years) by a unit rent derived from a sample survey of private dwellings conducted by the C&SD as shown in Table 1 above. For 1-person and 2-person households, the respective differential unit rent or the overall average unit rent, whichever is higher, is adopted in the calculation. For households of three persons or above, the overall average unit rent is adopted.

6. Details of the housing costs thus derived are shown in Table 2 below:

Table 2

Housing costs	Review for 2015/16	Review for 2016/17	% change
- 1-person	\$4,351	\$4,947	+13.7%
- 2-person	\$6,356	\$6,653	+4.7%
- 3-person	\$8,070	\$8,821	+9.3%
- 4-person	\$9,657	\$10,395	+7.6%

(Details of other household sizes are set out at **Annex A**)

Non-housing Costs

7. Following the established mechanism, this year's review adopted the non-housing expenditure statistics from the latest HES (i.e. the 2009/10 HES) of the lower half expenditure group among tenant households in the private sector, excluding those households comprising solely of elderly or non-working members. For the change in CPI(A)(excluding housing cost), the latest figure as at the fourth quarter of 2015 is +2.1%. As at the third quarter of 2015, the yearly change in nominal wage index (i.e. compared to the third quarter of 2014) is +4.4%. As the annual change in nominal wage index of +4.4% is higher than the yearly change in CPI(A)(excluding housing cost) of +2.1%, the change in nominal wage index is adopted to adjust the non-housing expenditure obtained from the HES.

8. Details of the non-housing costs thus derived are shown in Table 3 below:

Table 3

Non-housing costs	Review for 2015/16	Review for 2016/17	% change
- 1-person	\$5,271	\$5,503	+4.4%
- 2-person	\$9,018	\$9,415	+4.4%
- 3-person	\$11,973	\$12,500	+4.4%
- 4-person	\$14,393	\$15,026	+4.4%

(Details of other household sizes are set out at **Annex A**)

Total Household Expenditure

9. The total household expenditure, which is the sum of the housing costs and non-housing costs, is shown in Table 4 below:

Table 4

Total household expenditure	Review for 2015/16	Review for 2016/17	% change
- 1-person	\$9,622	\$10,450	+8.6%
- 2-person	\$15,374	\$16,068	+4.5%
- 3-person	\$20,043	\$21,321	+6.4%
- 4-person	\$24,050	\$25,421	+5.7%

(Details of other household sizes are set out at **Annex A**)

Proposed PRH Income Limits for 2016/17

10. Based on the above factors and adding in a contingency provision of 5% of household expenditure, the proposed PRH income limits for 2016/17 are tabulated below –

Table 5^{Note 6}

	Existing PRH income limits for 2015/16	Proposed PRH income limits for 2016/17	% change
- 1-person	\$10,100 (\$10,632)	\$10,970 (\$11,547)	+8.6%
- 2-person	\$16,140 (\$16,989)	\$16,870 (\$17,758)	+4.5%
- 3-person	\$21,050 (\$22,158)	\$22,390 (\$23,568)	+6.4%
- 4-person	\$25,250 (\$26,579)	\$26,690 (\$28,095)	+5.7%

(Details of other household sizes are set out at **Annex A**)

(Overall: +8.9%)

11. If the above PRH income limits are adopted, there will be on average an overall increase of 8.9% over the 2015/16 level. Detailed calculation of the proposed PRH income limits for 2016/17 is set out at **Annex A**; details of the proposed PRH income limits of various household sizes are set out at **Annex B**.

12. If the proposed income limits are adopted, based on results of C&SD's General Household Survey as at the fourth quarter of 2015, and simply using the household income as a base for estimation, some 146 500 non-owner occupied households living in private housing (31.2% of the total number of non-owner occupied households living in private housing) would be eligible for PRH. However, it should be noted that this estimate may be of limited

Note 6 Statutory contributions under the Mandatory Provident Fund (MPF) Scheme are deductible from a household's income when it applies for PRH. For households contributing 5% of their income under the MPF, the effective PRH income limits applicable to them (i.e. before deduction of 5% MPF contribution) are shown in brackets in the table.

reference value ^{Note 7}. We would continue to monitor the number of PRH applications.

REVIEW OF THE ASSET LIMITS

Review Mechanism

13. Under the established mechanism, the PRH asset limits are adjusted with reference to the movements in CPI(A) over the year ^{Note 8}. In 2005, the SHC agreed to set the asset limits for elderly households at two times the limits for non-elderly applicants. The SHC further decided in 2006 that the asset limits for 2005/06 should be adopted as the basis for future annual adjustments with reference to the movements in CPI(A).

Key Parameter

14. The movements of the key parameter (i.e. CPI(A)) over the year for the review of PRH asset limits are set out as follows –

Table 6

Parameter	Review for 2015/16	Review for 2016/17
	<u>4Q 2014</u>	<u>4Q 2015</u>
Change in CPI(A) as compared with the same quarter of previous year	+7.0%	+2.7%

Note 7 This figure only gives a snapshot of the position as at the fourth quarter of 2015 and should be interpreted with caution. The number of non-owner occupied households in the private sector will change over time, so will the proportion of them eligible for PRH. Households meeting the income limits may not necessarily be able to meet other eligibility criteria and this figure has not taken into account the assets of households. Eligible households may choose not to apply for PRH and some eligible households may have already applied for PRH. Besides, apart from existing non-owner occupied households, members of existing households from PRH, owner-occupier households of HOS and owner-occupier households in the private sector may also form new households and apply for PRH.

Note 8 Following established practice, the PRH asset limits are rounded to the nearest thousand.

Proposed PRH Asset Limits for 2016/17

15. Using the established review mechanism, we propose an adjustment to the existing PRH asset limits following the 2.7% increase in overall CPI(A). The proposed PRH asset limits for 2016/17 are summarised below –

Table 7

	Existing PRH asset limits for 2015/16	Proposed PRH asset limits for 2016/17
- 1-person	\$236,000	\$242,000
- 2-person	\$320,000	\$329,000
- 3-person	\$417,000	\$428,000
- 4-person	\$487,000	\$500,000

(Overall: +2.7%)

16. Details of the proposed PRH asset limits of various household sizes are set out in **Annex B**.

RECOMMENDATION

17. It is recommended that the proposed PRH income and asset limits (as set out in paragraphs 10, 15 and **Annex B**) be adopted for 2016/17.

IMPLICATIONS ON THE NUMBER OF WELL-OFF TENANTS

18. At present, under the Housing Subsidy Policy (HSP) and Policy on Safeguarding Rational Allocation of Public Housing Resources (SRA), which are collectively known as “well-off tenants policies”, households who have resided in PRH for ten years or above with an income level exceeding prescribed limits ^{Note 9} need to pay additional rent; those with income and assets

Note 9 Under the HSP, tenants who have resided in PRH for ten years or above are required to declare household income at a biennial cycle. Households with income exceeding two times the PRH income limits have to pay 1.5 times net rent plus rates. Those with income exceeding three times the PRH income limits, or who choose not to declare their income, have to pay double net rent plus rates.

exceeding prescribed limits ^{Note 10} need to move out of PRH. The income and asset limits under the “well-off tenants policies” are multiples of PRH income limits and will be adjusted according to the revised PRH income limits every year. The income and asset limits under the “well-off tenants policies” will be adjusted accordingly if the above proposed adjustment of PRH income limits is endorsed.

PUBLIC REACTION AND PUBLICITY

19. It is expected that the review of PRH income and asset limits will attract media and public attention. We consider that as the proposed PRH income and asset limits for 2016/17 are the results of a well-established review mechanism, they should be generally acceptable to the public at large. A press release will be issued to announce the outcome of this review.

DISCUSSION

20. At the SHC meeting to be held on 15 March 2016, Members will be invited to endorse the recommendation as set out in paragraph 17.

Miss Francesca SIN
Secretary, Subsidised Housing Committee
Tel. No.: 2761 5639
Fax No.: 2761 0019

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(Strategy Division)

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Note 10 Under the SRA, households who pay double net rent plus rates under HSP would be required to declare their assets in the next reporting cycle. If their income exceeds 3 times the PRH income limits and assets exceed 84 times the PRH income limits, they are considered no longer eligible for PRH and they need to move out.

Proposed PRH Income Limits for 2016/17

A. Housing expenditure

- Derived by multiplying reference flat sizes by the corresponding average unit rent
- The reference flat sizes refer to the average space (in terms of IFA) of the flats allocated to the PRH applicants from 2012/13 - 2014/15 ^(a)
- Average unit rents are derived from the data of C&SD's Rent Survey in the fourth quarter of 2015, covering those private flats with flat size of 69.9m² saleable area or below, with adjustment to unit rent per IFA

Household Size	Average Unit Rent (\$/m ² IFA) ^(b)
1	332
2	297
Overall Average	297

B. Non-housing expenditure

- Based on the expenditure patterns and levels of tenant households in private housing in the lower half expenditure group from the 2009/10 HES and adjusted by the change in CPI(A)(excluding housing cost) or the change in nominal wage index, whichever is higher.

C. Details of proposed income limits

Household size	Reference flat sizes ^(a) (m ² , IFA)	Housing expenditure (\$)	Non-housing expenditure (\$)	Total household expenditure (\$)	Plus 5% contingency provision (\$)	Proposed income limits (\$)	Existing income limits (\$)	Change (\$) (%)	
1	14.9	4,947	5,503	10,450	10,973	10,970	10,100	870	8.6
2	22.4	6,653	9,415	16,068	16,871	16,870	16,140	730	4.5
3	29.7	8,821	12,500	21,321	22,387	22,390	21,050	1,340	6.4
4	35.0	10,395	15,026	25,421	26,692	26,690	25,250	1,440	5.7
5	39.0	11,583	17,849	29,432	30,904	30,900	29,050	1,850	6.4
6	44.1	13,098	19,941	33,039	34,691	34,690	32,540	2,150	6.6
7	52.5	15,593	22,082	37,675	39,559	39,560	36,130	3,430	9.5
8	60.0	17,820	24,067	41,887	43,981	43,980	38,580	5,400	14.0
9	67.5	20,048	25,921	45,969	48,267	48,270	43,330	4,940	11.4
10+	75.0	22,275	27,665	49,940	52,437	52,440	45,450	6,990	15.4
Average	-	-	-	-	-	-	-	-	8.9
Number of non-owner occupied households living in private housing and meeting the proposed PRH income limits ^(c)									
1P						42 000	38 800	3 200	8.2%
2P+						104 500	99 200	5 300	5.3%
Total						146 500	138 000	8 500	6.2%
As a % of total number of non-owner occupied households living in private housing in Hong Kong ^(d)						31.2%	29.4%		

Annex A

- Notes :
- (a) HOS transferred flats and 3-bedroom flats allocated to 4-person households are excluded in calculating the reference flat sizes. Reference flat sizes for 1-person to 6-person households are the average size of PRH units actually allocated to these households in the past three years. For reference flat sizes for households of 7 persons or above, if we use the actual PRH units allocated to these household sizes respectively as basis for calculation, there will be very large fluctuations since the number of cases in each of these household sizes is very small (e.g. there were only two cases of PRH allocation to 10-person or above households from 2012/13 to 2014/15). Therefore, calculation of reference flat sizes for households of 7 persons or above used to be adjusted based on the average change in reference flat sizes for 1-person to 6-person households in the past. However, the reference flat sizes thus calculated has gradually deviated from the actual situation as time goes by. In order to better reflect the actual situation, for the 2016/17 review, an average size per person figure is first calculated by grouping all PRH allocations to households of 7 persons or above in the past three years. The respective reference flat sizes for households of 7 persons or above are then obtained by multiplying this per person figure by the relevant household sizes.
 - (b) Allocation of PRH is based on IFA. To calculate the housing cost needed for comparable private rental accommodation, we need to convert the average unit rent data (in terms of saleable area) from C&SD's Rent Survey into unit rent data in terms of IFA.
 - (c) Matching the proposed PRH income limits with the household income distribution of the non-owner occupied households living in private housing from C&SD's General Household Survey (GHS), those households with household income equal to or below the income limits would be regarded as being eligible for PRH.
 - (d) According to the GHS of C&SD, the total number of non-owner occupied households (including those whose accommodation is provided by employers/relatives/friends) living in private housing is estimated to be around 470 100 in the fourth quarter of 2015.

Proposed PRH Income and Asset Limits for 2016/17

Household Size	Existing PRH Income Limits for 2015/16*	Existing PRH Asset Limits for 2015/16^	Proposed PRH Income Limits for 2016/17*	Proposed PRH Asset Limits for 2016/17^
1-Person	\$10,100 (\$10,632)	\$236,000	\$10,970 (\$11,547)	\$242,000
2-Person	\$16,140 (\$16,989)	\$320,000	\$16,870 (\$17,758)	\$329,000
3-Person	\$21,050 (\$22,158)	\$417,000	\$22,390 (\$23,568)	\$428,000
4-Person	\$25,250 (\$26,579)	\$487,000	\$26,690 (\$28,095)	\$500,000
5-Person	\$29,050 (\$30,579)	\$541,000	\$30,900 (\$32,526)	\$556,000
6-Person	\$32,540 (\$34,253)	\$585,000	\$34,690 (\$36,516)	\$601,000
7-Person	\$36,130 (\$38,032)	\$626,000	\$39,560 (\$41,642)	\$643,000
8-Person	\$38,580 (\$40,611)	\$656,000	\$43,980 (\$46,295)	\$674,000
9-Person	\$43,330 (\$45,611)	\$724,000	\$48,270 (\$50,811)	\$744,000
10-Person and above	\$45,450 (\$47,842)	\$780,000	\$52,440 (\$55,200)	\$801,000

* Figures in brackets denote the effective income limits should a household be contributing 5% of its income under the MPF Scheme as required by the law.

^ Asset limits for elderly households (i.e. households comprising solely elderly members) are set at two times of the limits for non-elderly applicants.