

(Translation)

Democratic Party's
Submission on
“ Long Term Housing Strategy Review”

12 August 1996

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Foreword

Public housing development has a history of 40 years. The Housing Authority (HA) always emphasizes the impressive achievements in the housing development of Hong Kong. Moreover, from HA's point of view, there are “too many” public housing (especially public rental housing) flats at present, the situation has gone beyond a manageable level and involves excessive public fund.

The “Super-Well-Off Tenant Policy” laid down in 1996 reflects that HA, which thinks too much subsidy has been given in the aspect of housing, intends to enhance “privatization” of housing and has a tendency to encourage mobility. The Democratic Party reckons that the Government has an obligation of providing affordable accommodation for the public. As such, the adoption of a “public-sector-led” approach is considered appropriate. We disagree with a number of areas in the current Long Term Housing Strategy (LTHS) and its future directions.

I. Mechanism of the Housing Demand Model

1.1 General Comments on the Mechanism

The mechanism of the Housing Demand Model is set up on the basis of such assumptions as the public's choice of housing categories, social conditions (e.g. population) and economic conditions, etc. **In our view, some of the assumptions are made without scientific basis at all. No surveys are carried out by the Government with a view to increasing the accuracy of such estimates. For those assumptions with scientific basis, the demands projected are too conservative.**

- 1.2 (a) We are of the opinion that some assumptions of the mechanism established by the Government lack scientific basis. The scope of such assumptions includes the method for deriving the Accommodation Generation Rate (AGR) of each component, e.g. the projections made by the Government on first marriages, divorces, unmarried children of unextended nuclear family households and splitting ratio of multi-nuclear family households, as well as the housing demand of legal immigrants from China. The housing demand of a component is derived by multiplying together the estimated number of households

likely to generate housing needs, the AGR and the Splitting Ratio (SR) between public and private housing. AGR is projected in accordance with the results of the 1991 Census which provide information on the housing pattern of components of housing needs (e.g. separate accommodation / living with family, currently living in Public Rental Housing (PRH) / Home Ownership Scheme & Private Sector Participation Scheme & Sandwich Class Housing (HOS) / Private Housing (PH), etc.) For instance, 70% of married couples live in unextended nuclear family households while 30% of the newly-weds live in complex family structure households. It is assumed that 10% of the couples in unextended nuclear family households already have separate living quarters before marriage. Thus only 63% of them would require additional housing upon marriage. It is also assumed that half of the newly-weds living in complex family structure households will seek separate housing. As a result, the AGR is estimated to be 78% (i.e. 63% + 15%).

The assumption on AGR is the key to the projection of housing demands by the Government. Take the case above as an example. When projecting the ratio of those having separate living quarters and those from complex family structure households seeking separate accommodation, the Administration only makes a rough estimate on the future housing pattern on the basis of the existing one. In other words, such an estimate lacks an objective assessment basis, which gives the Administration much freedom to suppress housing demands arbitrarily and thus reduce the production of public housing. The problem with such an estimate is that the existing housing pattern fails to fully reflect the public's considerations on housing categories and preference for separate accommodation, etc.

“AGR” is an assessment on future demands based upon demand data of the past (e.g. marriage, divorce and splitting rate, ratio of returned emigrants, etc.). However, these factors may vary with changes in socio-economic conditions. It is understood that under the “Housing Demand Model”, different housing construction projects can be designed on the basis of different assumptions. Nevertheless, since it normally requires 7 to 10 years to complete housing construction from planning stage to completion, the Administration has to update its housing projects in the wake of social changes to ensure a balance

between housing supply and demand.*

- b) **Besides, as regards the SR between PRH, HOS and PH, the proposed method of projection is not scientific in nature. It is derived by matching the total household income level of families eligible for subsidized housing with PRH and HOS income limits. The SR between public and private housing is thus projected to be 63:37. However, as some of those eligible for public housing are now living in private housing, the SR is projected to be 50:50. Among those currently living in public housing, how many want to move into**

Translator's notes:

- * Please see Hon LEE Wing-tat's letter dated 19 August 1996 for updated information on paragraph 1.2(a).

private sector housing? What are the reasons? The Government seems to have made projections without conducting surveys among residents. As a result, the public's demand for certain types of housing might be under-estimated to a large extent in future.

In deriving the SR between PRH, HOS and PH for components of housing needs (e.g. first marriage, divorces, legal immigrants from China, etc.), the Government commits the same mistake of providing no actual data to support its projection. This is particularly evident in the projection of the SR between PRH, HOS and PH for those of first marriages, re-marriages, divorces and legal immigrants from China.

- c) It is learnt that the Planning Department is conducting a survey on the public's housing aspirations and household income, etc. and details related to housing demands.

In our view, it is necessary for the Government to project housing demands with objective scientific methods after collecting information. It is pointed out in the paper submitted by the Government to the Panel on Housing that some of those eligible for public housing are living in private housing and the SR projected between public and private housing should therefore be at a level lower than the existing one. Why do those eligible for public housing prefer accommodation in the private sector? Is it largely due to personal preference, or because of the fact that waiting time for allocation of public rental housing is too long / the chances in the ballot for HOS flat applications are too slim? The Government obviously takes the former as the reason, but we believe it is the latter. Therefore, we suggest that the Planning Department should, in its survey, seek details on the housing preference of residents (i.e. which types of housing preferred). It is inappropriate to make presumptuous projections or take cause for effect.

- 1.3 **In formulating the mechanism of LTHS, the Government has made assumptions on scientific basis, but the method for projecting demands is too conservative. For instance, the housing demands of divorcees are projected according to the average divorce rate in the past ten years, hence deriving the AGR¹. However, as the divorce rate in Hong Kong increases every year, the Government should**

¹ Information paper for meeting of the Panel on Housing held on 23 April 1996.

project the divorce rate for 2001/02 - 2005/06 on the basis of the annual increase of divorce rate and then calculate the AGR.

In projecting the housing demand for legal immigrants from China, the Government commits both mistakes outlined above. On the basis of past information, it is estimated that only 17% of these immigrants have no next-of-kin in Hong Kong. In other words, the remaining 83% of immigrants are spouses / children / parents of permanent residents in Hong Kong. The housing needs of these immigrants are thus projected to be 9,125 per year ($150 \times 365 \times 17\%$). According to information provided by the Housing Department², from February to mid-June this year, there are altogether 9,000 families registered on the Waiting List, of whom 200 are Chinese immigrants. Meanwhile, there are around 270 newly-registered families with some of the members being Chinese immigrants. **Even though 83% of immigrants have spouses or children or parents in Hong Kong, it is very likely that they have a need for separate accommodation (including moving to larger flats). As such, it is unrealistic for the Government to assume that 83% of the immigrants have no need at all for separate accommodation. If the Government conducts scientific surveys on the housing demands and changes of Chinese immigrants, their housing demands could be projected more accurately.**

1.4 Additional Housing Production

When HA set the housing production target in the past, an extra 5-10% is included to make up for the difference between the total production and target production caused by various factors. But even though 5-10% of flats are included as reserves, housing production still fails to meet the demands. For instance, it is pointed out in the “Report on Mid-term Review of the Long Term Housing Strategy” published in 1993 that there is a production reserve of 9,000, but this is still unable to meet the demands. Since 1987, the growth in housing demand is larger than expected. The 5-10% production reserve can only make up for the shortfall caused by various factors but fails to cope with any increase in demands. In the LTHS formulated in 1987, it was anticipated that the total housing demand from 1986/87 - 2000/01 would be 1,085,000 flats. Yet, current estimates indicate that about 1,259,000 new flats will be completed between now and 2001, a 16% increase in housing production

² Response to Hon LEE Wing-tat's question on the information paper for meeting of the Panel on Housing held on 12 July 1996.

compared with the previous estimate. Although increase in demand caused by factors affecting such demands can be estimated when projecting the demands under LTHS, there are always some unforeseeable factors which will affect housing demands. Under such circumstances, there may be a serious shortfall in housing supply. **Therefore, we suggest that the Government should increase housing production by 20% to make up for the shortfall caused by various factors and to cope with unforeseen changes in demand.**

1.5 Review of the Implementation of the LTHS Mechanism

In the past, the work of reviewing the implementation of LTHS is undertaken by HA and the Planning, Environment and Lands Branch (PELB). In fact, quarterly reviews are conducted by HA to see whether housing production could meet housing demands. This is only a production adjustment exercise rather than a strategy review. **What is required is a mechanism which could effectively review the LTHS as a whole. The functions of such a mechanism should include monitoring the implementation of the LTHS, reviewing the impact of socio-economic changes on housing demands and hence making adjustments to specific policies such as those on Waiting List income limit and housing production, etc. Besides, the LTHS review should be open and transparent throughout, with members of the public participating in the decision-making process and public consultation being carried out.** (See Part VI for details)

1.6 The Role of the Planning, Environment and Lands Branch (PELB)

- a) Land planning and housing production are closely related to each other. **The PELB could not shirk its responsibility on the question of land supply. It should lay down middle and long term strategy of land supply and set up a specific time-table for land supply. As the work of land planning, environmental and traffic assessments which are done by different departments requires a number of years to complete, the Government should find ways to simplify the approval procedures and shorten the time for conducting various assessments.**
- b) In planning housing production projects, the Government will consider a number of factors such as the impact on environment and whether such housing is reinforced by traffic network. We are all for the Government on this principle. However, while considering the balance

between housing production and environmental impact, the Government tends to put weight on the environmental aspect resulting in reduction in housing production. **We agree that environmental impact should be taken into account at the planning stage. However, since there is a keen demand for housing in recent years, the Planning Department should exercise greater flexibility to address the housing needs of the public.** In the aspect of plot ratio, for example, the Government should explore ways to make the best use of space such as building additional floors.

Moreover, past experience indicates that the number of flats built by private developers is larger than that of flats built by HA on land of the same size. It shows that housing production of HA has not reached its maximum capacity in public housing construction. For instance, there is still room for improvement in the number of floors built and the use of space. In view of this, the PELB should make an effort to find out how to make the best use of space so as to build the maximum number of flats on land of the same size as compared with private developers.

- c) According to past experience, for land set aside for public housing construction, there may in some cases be delay in completion brought about by various factors. As such, it is necessary to set aside some land as land reserves, and make some available for use any time within a year rather than being permanently “in reserve”. Otherwise, land reserves will only be in vain.

II. Waiting time

It is pointed out in the 1987 Long Term Housing Strategy that the supply of PRH units for the year 1996/97 would be able to meet the demand of the applicants on the PRH Waiting List. However, it turns out that there are still 150,000 households waiting for allocation of PRH units. The statistical data of August 1995 show that the average waiting time for a PRH applicant on the Waiting List is seven years. If an applicant prefers PRH estates located in Hong Kong Island or Kowloon, he has to wait for over ten years. The average waiting time for allocation of PRH flats located in Junk Bay is seven to eight years; for units in Tsuen Wan, Shatin, Tai Po, Fanling or Sheung Shui, the average waiting time is six to seven years; and for units in Tuen Mun, Yuen Long or Tin Shui Wai, PRH applicants still have to wait for three years on average. The

Waiting List Income Limit is too low. For a four-member household eligible for PRH, the minimum amount of rent it has to pay for a residential unit available in the private property market is \$5,790 per month (4 x 7.5 sq. metres x monthly rent of \$193³ per sq. metre for a private residential flat in the urban area). When compared with the monthly rent of \$1,659 (4 x 7.5 x monthly rent of \$55.3 per sq. metre for a PRH unit in the urban area) for a PRH unit, the family has to pay an extra amount of over four thousand dollars for rents. In other words, if this family has to wait for seven years for allocation of a PRH unit, an extra amount of \$347,004 for rent is incurred during the waiting period. This is in fact a heavy burden in rent for them to shoulder. Even if we base our calculation on the pledge made by the Governor in his Policy Address of 1995/96 and assume that the average waiting time is reduced to five years by 2001, this family still has to pay an extra \$247,860 for rent, which is a very unreasonable amount. Households eligible for PRH application fall into the lowest income group. It is unacceptable for these families to be compelled to pay an extra several hundred thousand dollars for rent or to live in inadequate and sub-standard accommodation. **We recommend that the Government should grant additional land to HA for production of more PRH units; and that the average waiting time for allocation of a PRH unit should be shortened to two years as soon as possible in the period 2001 to 2005. The Democratic Party also recommends that a rent assistance scheme be in place for Waiting List applicants. All Waiting List applicants who have waited for a period longer than the waiting time pledged by the Governor are eligible for rent allowance, the amount of which should be equivalent to the difference between the rent for a PRH unit and that for a private residential unit** (The rent for a private residential unit is calculated as follows : number of family members x HA space allocation standard (7.5 sq. metres) x average rent per sq. metre).

III. Affordability

The affordability threshold for HOS household is currently set at a level where 40% of the total household income is spent on mortgage repayment, while that for Sandwich Class Housing (SCH) household is 50% of the total household income. Nevertheless, HOS and SCH are

³ Hong Kong Monthly Digest of Statistics, July 1996, Census and Statistics Department, Hong Kong.

classified as “subsidized housing” and a monthly mortgage repayment which occupies 40% to 50% of the total household income is too high. Moreover, the supply of HOS and SCH flats falls far short of the demand and many people are forced to purchase private residential flats instead. The monthly mortgage repayment makes up as high as 70% to 80% of their total household income. The supply of HOS and SCH units is just “a drop in a bucket” when compared with the number of eligible applicants for such housing. Among the HOS flats available per year, only 1/4 to 1/3 are sold to white form applicants. The chance for these applicants to purchase HOS flats ranges from 1/10 to 1/36, depending on the number of flats completed. There are only 20,000 SCH units provided for the period 1994/95 to 2000/01. Since the general public cannot afford to purchase private housing, they have no alternative but to wait for the purchase of HOS or SCH units. People in Hong Kong spend much more money on housing than those in other countries, thus leaving them with much less disposable fund. **We recommend that the Government should adjust the affordability criteria for HOS and SCH flats, and suggest that the monthly mortgage repayment for HOS households should occupy 30% of the household income. With regard to SCH flats, we recommend that the Government should reduce its charge on land premium which amounts to 50% of the market price at present. This will reduce the cost of SCH units. The monthly mortgage repayment for SCH households should occupy 40% of the household income.** We believe that with such recommendations, HA can still have sufficient liquid balance for housing production.

IV. Land supply and flat production

- a) Past experience shows that delays in of HA’s housing programmes are attributed mainly to the Government’s failure in allocating land on time. According to the “Report on Mid-term Review of the Long Term Housing Strategy” released in 1993, as the Government could not make available land to HA on time, some housing programmes could not be completed as scheduled. As a result, the flat production for 1995/96 and 1996/97 is reduced to around 15,000 units. This illustrates that the timely allocation of land by the Government is the crux of the problem. Moreover, whether the site allocated can be made available for housing production at the time specified is constrained by various factors such as the environmental impact, traffic capacity and infrastructural projects.

Coupled with the time-consuming process for approving the housing programmes by various Government departments, delays in implementing these housing programmes always occur.

- b) Apart from the “delay in land grant and under-allocation of land” described above, sites allocated by the Government to HA are normally farther away from MTR or KCR stations than sites acquired by private property developers. Let’s take Shatin District as an example. Residential buildings nearest the KCR station are all private housing, while PRH estates and HOS estates are located farther away. This is a typical feature in the planning of new towns since the mid 80s. Therefore, **we recommend that the Housing Branch (HB) should ensure that adequate supply of land are made by the Government and there is co-ordination between the pace in land allocation and housing production. Improvements should also be made in urban planning, while additional land in the urban areas and areas with good traffic facilities should be allocated for PH and HOS housing production. Studies should be conducted on possible ways of expediting the approval procedures by various Government departments (these include the environmental impact assessment, the design of traffic network and the planning of land).**
- c) It is mentioned in Part I that the proposed Housing Demand Model has most likely under-estimated the housing demand, and the projection made represents a suppressed demand only. **We estimate that the households on the Waiting List at present will still not be allocated public housing by 2001. In addition, the number of households on the Waiting List will increase each year, implying that history may repeat itself in the years 2002, 2003 and 2004, when the number of households on the Waiting List will come up to approximately somewhere near 200,000. It will be too late then to consider allocating additional land. Therefore, it is necessary for the Government to identify as early as possible more appropriate sites for additional housing production.**
- d) **With regard to housing production, the Government should make every effort in maintaining a stable flat production every year and co-ordinate the housing production with the housing demand of that year.** Past experience in implementing the LTHS shows that the actual flat production in some years fell far short of the planned production

target.⁴ For example, the total supply of public housing units in 1996/97 is 36,441 while the flat production for the year of 2000/01 is set at 90,029 units. This flat production target does not correspond to the increase in housing demand but only reflects the Government's inadequate performance in the allocation of land and in monitoring the progress of housing production.

V. The role of the Housing Branch (HB)

- a) As mentioned above, HA's failure in achieving the production target in the past is mainly related to the supply of land. We consider it the responsibility of the HB to ensure that adequate land is allocated by the Government for meeting the housing production target. As mentioned in Part II, Government's ability to grant land at the time specified is a determining factor on flat production and completion date. On the other hand, Government's allocation of land is decided by the assessments on environmental impact, traffic capacity and infrastructure of the housing production programmes undertaken by various Government departments.

Therefore, it is the HB's responsibility to ensure that sufficient land is allocated by the Government at a co-ordinated time to keep in line with the housing programmes. Studies on expediting the assessment procedures taken by various Government departments should be conducted. Apart from tackling the problem of "delay in land grant and under-allocation of land", there is also the need to strive for "allocation of more land". In fact, in the "Report of the Task Force on Land Supply and Property Prices" published by the Government in 1994, it is proposed that increase in land supply is a means of solving the problem of housing shortage and high property prices. According to the Report, if approval is obtained from the Sino-British Land Commission, 70 hectares of additional land may be granted under the Land Disposal Programme for the production of HOS and private residential housing by 1997/98. However, experience in 1994/95 shows that the Sino-British Land Commission only approved the grant of 12.42 hectares of land during the year, though it is proposed in the Report that 15 hectares of additional land may be granted for the year. The Government stated that it would strive to fulfill its promise

⁴ Information paper of Development Committee, Housing Authority, November 1996.

of increasing the supply of residential housing units by 45,000 before 1998, but it may not request an additional supply of 70 hectares of land⁵. We consider that the Government should adopt the attitude of “fighting for every inch of land”. Although it is possible to enhance flat production through increasing the plot ratio and thus meeting the housing production target, it is a hard fact that the Government must have already identified appropriate sites for housing production as it has proposed in the Report of 1994 that an additional supply of 70 hectares of land should be made available by 1997/98. The key to the question is whether approval could be obtained from the Chinese side for the allocation of 70 hectares of land. We therefore consider that the Government should liaise with the Chinese side and seek the Land Commission’s acceptance to the Government’s proposal.

- b) **Besides, the aim of forming the HB is to co-ordinate the efforts of various organizations (including HA, the Land Development Corporation (LDC) and the Hong Kong Housing Society(HKHS)) responsible for the planning and the production of housing. Yet, it should also assume the role of an overall planner. HB is now unable to monitor the work of these organizations effectively, neither is it able to monitor the work of these organizations and ensure that the production target is met within the time specified.**

The roles of these organizations are different. Overall planning should be made by HB to facilitate distribution of work and co-ordination of efforts among such organizations; these organizations should also be responsible to HB. However, all members in HA, HKHS and LDC assume their office through an appointment system and they are not accountable to the public. There is practically no way to ensure that the policy they formulate will be in the interests of the general public. It is also difficult for the Legislative Council to exercise control over them. These organizations may well be regarded as independent kingdoms. What the Legislative Council can do now is to hold the HB responsible. If HB could exercise overall control over HA, HKHS and LDC, the Legislative Council may oversee the work of these

⁵ As reported in the Hong Kong Economic Times on 19 November 1994, Mr. Canice Mak, Deputy Secretary for Planning, Environment and Lands, said that housing production was the most important thing and it would be good enough as long as the housing production target could be met by the time specified.

organizations through monitoring HB.

- c. Regarding the supply of private residential housing, the Government has repeatedly over-estimated the production of private sector housing. In reviewing the 1987 LTHS, the Government proposed that the supply of private residential housing should be 35,000 units every year but the numbers of flats produced in these few years is only in the range of 22,000 units. HB has indicated time and again that the inaccurate projection of housing supply was the responsibility of other Government departments who made the estimation before its establishment. HB was established in 1994. Bearing in mind the fact that housing production programmes usually take three years to complete, HB can no longer shirk its responsibility if the supply of private residential housing falls short of the Government's estimate again in 1997/98. **With regard to the supply of private residential housing, the Government should never use such an excuse as “the number of units supplied by private property developers is beyond our control” and be indifferent to what is going on. An internal mechanism should be in place within HB, so that additional land may be allocated or public housing production may be increased for the following year, in order to make up for the discrepancy in housing production brought about by the slackened pace in urban redevelopment in the current year.**

VI. Proposed establishment of a co-ordinating committee

- a) We recommend that there should be a co-ordinating committee to monitor the implementation of the LTHS. Since the LTHS is jointly implemented by a number of organizations including HB, HA, HKHS and LDC, there should be a body responsible for the co-ordination and monitoring of the implementation of the LTHS. The co-ordinating committee should engage itself in the work of supervising the implementation of the LTHS, as well as reviewing the impact of various socio-economic changes on the housing demand.

To monitor the implementation of LTHS, the committee should oversee the launching of various housing production programmes by the Government according to the proposals in the LTHS. It includes monitoring the allocation of sufficient land for housing production at the time specified, as well as ensuring that Government's promises in

housing production are fulfilled, both in terms of flat production and completion dates.

- b) With the everchanging socio-economic conditions, the LTHS at present is formulated on the basis of current economic conditions, population and social conditions (like marriage rate and divorce rate). Most factors affecting housing demand may undergo drastic changes within a few years. Changes may occur in property prices, the housing aspiration of the public towards home ownership, the affordability of the general public for purchasing private housing, the number of legal immigrants arriving Hong Kong from China and their eligibility criteria, etc. We therefore consider that the co-ordinating committee should, in response to the changes in socio-economic conditions and policy changes concerning housing demand, review the flat production formulated under existing housing policy.
- c) Besides, the co-ordinating committee should be open and transparent in its operation and its meetings should be open to the public. Members of the co-ordinating committee should consist of members from HA, HKHS and LDC, officials of HB and PELB, representatives of residents and the general public. The membership list should be subject to approval by the Legislative Council.

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Summary

- I. The mechanism of the Housing Demand Model
 - (i) The Housing Demand Model is formulated on assumptions without scientific basis, such as the projection of the Accommodation Generation Rate of each component of housing needs, and the method for calculating the Splitting Ratio between public rental housing, Home Ownership Scheme housing and private housing.
 - (ii) Although some assumptions are made on scientific basis, the projections of housing demand are too conservative. The projections of the housing demand of divorcees and the housing needs of legal immigrants from China are two examples.
 - (iii) It is recommended that a 20% reserve should be included in the housing production to guard against any possible slippage in construction works caused by various factors and to cope with unexpected changes in housing demand.
 - (iv) Studies should be conducted to explore ways of improving the plot ratio.
- II. It is recommended that the waiting time for public rental housing should be reduced to two years.
- III. The affordability threshold should be set as follows: the monthly mortgage repayment for a Home Ownership Scheme household should occupy 30% of the household income, and that for a Sandwich Class Housing unit should be 40% of the household income.
- IV.
 - (i) The Government should consider ways of shortening the approval procedures such as the planning of land and environmental impact assessment etc.
 - (ii) It is the responsibility of the Government to allocate sufficient land to meet housing needs. The pace of land grant should be co-ordinated with the housing production programmes.
 - (iii) Land ready for use anytime within one year should be reserved for housing production.

- V. (i) The Housing Branch should co-ordinate the works of the Hong Kong Housing Society, the Housing Authority and the Land Development Corporation so as to ensure that these organizations can achieve their production targets within the time specified.
 - (ii) The Government should ensure that there is sufficient supply of private housing to meet the production target and should make up for the shortfall in private housing by increasing the supply of land and public housing production.
- VI. A co-ordinating committee should be set up to oversee the implementation of the Long Term Housing Strategy.