

Legislative Council Panel on Housing
Meeting on 19 April 1999

Buy-or-Rent Option

PURPOSE

This paper informs Members of the broad framework for the Buy-or-Rent Option (BRO) and the launch of Phase One sale.

BACKGROUND

2. In the White Paper on Long Term Housing Strategy, the Government undertook to offer prospective public housing tenants the option of buying flats at a discounted price. This new initiative aims at meeting the aspiration to home ownership of low income families and providing them with the opportunity to move up the ladder to home ownership without the interim stage of public rental housing.

3. The Housing Authority (HA) endorsed the launch of the BRO at its meeting on 4 March 1999.

BASIC PRINCIPLES

4. The BRO intends to provide an additional affordable option for prospective tenants while their existing rights and options will remain unaffected. The basic operating principles of the BRO are -

- (a) the HA's commitment in providing public rental housing (PRH) remains unchanged;
- (b) prospective PRH tenants are given an additional affordable option in home ownership;
- (c) they are free to choose between buying and renting PRH; and

- (d) those who choose not to join will be allocated PRH in normal course.

GENERAL FRAMEWORK

Target Groups

5. The target groups comprise all prospective tenants including Waiting List (WL) applicants who are due for allocation in the coming year, Temporary Housing Area (THA)/Cottage Area (CA) and squatter clearerees who have satisfied prevailing PRH eligibility criteria, and junior civil servants.

Selection of Estates

6. The BRO will cover only new PRH estates. We intend to have at least one BRO sale exercise each year. The exact number of flats to be put up for sale will depend on the response from purchasers and the new PRH supply.

Pricing

7. Since target purchasers under the BRO are the low income group, the BRO flats will be priced on the basis of affordability. To ensure that the pricing proposals under the BRO are consistent and compatible with other subsidized home ownership schemes, like the Home Ownership Scheme (HOS) and the Tenants Purchase Scheme (TPS), BRO prices should be lower than those under the HOS which are reflecting the higher quality of new Concord and New Cruciform flats, but will be higher than those under the TPS which involves the sale of 10-year old Trident PRH flats. Through the adjustment of discount rate and the provision of mortgage subsidies for six years, the majority of flats will be priced with a mortgage-to-income ratio of less than 35% for households earning at 70% of the Waiting List Income Limits or above. This affordability benchmark is more generous than that of the HOS which is 40%.

Mortgage Subsidies

8. To enhance the affordability of purchasers during the early repayment period, the HA will provide them with monthly mortgage subsidies up to six years. The level of mortgage subsidies will be set on a par with those of the Mortgage Subsidy Scheme (MSS) which is designed for PRH tenants affected by redevelopment, i.e. -

- (a) first and second years: \$3,000 per month;
- (b) third and fourth years: \$2,250 per month; and
- (c) fifth and sixth years: \$1,500 per month.

9. The total subsidies received by BRO purchasers will amount to \$162,000 in six years. The mortgage subsidies will not be repayable upon resale.

Mortgage Financing

10. BRO purchasers are required to pay a downpayment equivalent to 5% of flat prices. Similar to the HOS, we will provide a default guarantee to financial institutions so that mortgagees can enjoy preferential interest rates.

Resale Conditions

11. The resale conditions of the BRO will be the same as those being proposed for the HOS and TPS under the Housing Ordinance (Amendment of Schedule) Order 1999 ⁽¹⁾ -

- (a) at original price to the HA in the first two years or at the prevailing assessed market value less the original percentage discount in the third to fifth years from the first assignment to the HA;

⁽¹⁾ The Housing Ordinance (Amendment of Schedule) Order 1999 is being tabled at the Legislative Council for vetting. The vetting period will expire on 21 April 1999.

- (b) at negotiable price to eligible persons and other PRH tenants in the secondary market after two years from the first assignment without payment of a premium to the HA; and
- (c) in the open market freely after five years from the first assignment subject to payment of a premium proportionate to the original discount to the HA.

Sale Arrangement

12. In terms of flat selection, THA/CA and squatter clearerees will enjoy top priority as they have an imminent need for rehousing. They will be followed by WL applicants whose selection priority will follow their application numbers. Junior civil servants will be treated on a par with WL applicants. We shall carefully work out the detailed sale and flat selection arrangements to maximise transparency and fairness.

13. If the number of BRO applicants exceeds the number of flats for sale, unsuccessful purchasers will be allowed to wait for the next BRO sale exercise or they can choose to re-join the WL without losing their priority order. Similar to the practice of the MSS, unsold and uncompleted flats within the selected BRO blocks will be offered for sale to Green Form applicants in the following HOS sale exercise and the discount rate for these flats will follow that of other HOS flats. Any remaining unsold flats will be offered for letting.

Reversion to Tenants

14. To be consistent with the practice in HOS and TPS, BRO purchasers are not allowed to revert to prospective tenants after the signing of the sale and purchase agreements. Nevertheless, the HA will consider applications for rehousing in PRH on compassionate grounds.

Estate Management

15. Similar to new PRH estates and HOS courts, the HA will engage private management agents to manage the BRO estates. While the HA undertakes to manage the estates for the first two years, owners will be encouraged to form Owners' Corporations to take over the building management responsibility.

Arrangement for Those Who Choose to Rent

16. Those who choose to rent will be rehoused to PRH in normal course and will not be adversely affected by the BRO.

Interface with MSS

17. In view of the similarities between the MSS and BRO, the HA intends to allow both Comprehensive Redevelopment Programme tenants and BRO purchasers to choose new PRH flats in the urban area, extended urban area and the New Territories interchangeably under the two schemes. Details of the interface will be put up to the HA's Home Ownership Committee (HOC) for consideration in May 1999.

PHASE ONE SALE

18. For Phase One, the HA will put up two projects comprising three new PRH blocks (about 2,000 flats) in Fanling and Tin Shui Wai for sale. This constitutes only 6% of the total new PRH units to be completed in 1999/2000. Depending on the response, a maximum of three more blocks within these two projects can be transferred for sale.

19. Detailed pricing proposals on the sale blocks will be considered by the HOC in May 1999. The sale price for the flats in those two projects will range from \$0.3 million to \$0.77 million. For a 40 m² saleable area flat, the price will be around \$0.62 million in Fanling and \$0.52 million in Tin Shui Wai. BRO purchasers will be able to draw mortgage subsidies of up to \$162,000 in six years at the same time. For a typical 4-person household earning about \$12,400 a month which is going to buy a 40m² saleable Harmony flat in Tin Shui Wai, an affordability analysis is at **Annex**.

20. For Phase One sale, prospective tenants who are going to be rehoused in the forthcoming financial year will be invited to join the BRO. We estimate that about 26,000 households will be involved which include -

- (a) 21,000 WL applicants⁽²⁾ who have been on the WL since 1 April 1993;
- (b) 3,600 THA/CA/squatter clearerees; and
- (c) 1,650 junior civil servants.

21. Subject to HOC's endorsement over the detailed sale arrangements and pricing proposals for Phase One sale in May 1999, we will invite applications in June/July 1999.

Housing Department
April 1999

⁽²⁾ There are a total of 35,000 WL applicants who have been on the WL since 1993. We assume about 60% of them will be able to satisfy the PRH eligibility criteria.

**An Illustration of the Affordability of a 4-person Household
Under the Buy-or-Rent Option**

For a 40m² saleable flat in Tin Shui Wai at a price of \$520,000 (45% discount) -

(A)	Downpayment: \$26,000				
(B)	Income: \$12,400				
(C)	<u>Under BRO</u>				
		<u>Year 1</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 10</u>
(i)	Mortgage Payment:	\$4,000	\$4,000	\$4,000	\$4,000
(ii)	Mortgage Subsidy:	(\$3,000)	(\$1,500)	-	-
(iii)	Management Fee + Rates + Government Rate:	\$700	\$900	\$1,000	\$1,100
(iv)	Net Housing Expenditure:	\$1,700	\$3,400	\$5,000	\$5,100
(D)	Mortgage to Income Ratio: (after deducting mortgage subsidies)	0.08	0.16	0.24	0.20
(E)	PRH Rent :	\$1,560	\$1,830	\$2,150	\$2,530
(F)	Total Housing Cost to Rent Ratio:	1.10	1.87	2.32	2.04

Assumptions :

- (1) Downpayment: 5%; mortgage interest rate: 8.625%; tenure: 25 years.
- (2) The long term growth rates for household income, PRH rent and management fee are 5.5% per annum.
- (3) Household income is at 70% of Waiting List Income Limit for a 4-person household.