

**LegCo Bills Committee on the Landlord and Tenant (Consolidation)
(Amendment) Bill 2003**

URA ACQUISITION AND COMPENSATION POLICIES

Introduction

This paper sets out the policies of the URA regarding the acquisition of domestic property for its redevelopment projects and ex-gratia payments to tenants. The paper also responds to points raised by Members at the second Bills Committee meeting on 18 December 2003.

Current Policy

Compensation for Domestic Owners

2. In acquiring domestic properties, the URA broadly follows the same policies as Government applies in resumption cases. Briefly, these comprise payment of the open market value of the property plus Home Purchase Allowance (HPA) or Supplementary Allowance (SA). These policies are set by the Finance Committee of the Legislative Council. HPA is the difference between the value of a notional replacement flat (based on a seven year old flat of a size similar to the acquired flat and in the same locality) and the open market value of the acquired flat. HPA is paid to owner-occupiers. SA is paid to owners of tenanted and vacant flats at 50% of HPA. In addition, the URA pays an ex-gratia Incidental Costs Allowance to cover costs and as incentive to owners to encourage early sale of their properties. The principles applied in acquiring properties are summarized in Annex A.

Compensation for Domestic Tenants

3. Tenants of domestic property are offered the option of re-housing or compensation under the LTO plus an ex-gratia amount equivalent to 70% (subject to a maximum amount of \$200,000). Payments are subject to a minimum of \$70,000 for a one-person (1P) household and \$80,000 for a 2P or larger household. The principles applied in tenants' compensation are summarized at Annex B.

4. Some examples of payments for owner-occupied, tenanted and vacant flats are shown in Annex C.

Measures to Assist Evicted Tenants

5. At the meeting on 18 December 2003, Members asked how the URA would assist tenants, who are evicted by their landlords before redevelopment commences. At present, an owner can only repossess a tenanted property under the LTO for redevelopment or to occupy the premises himself. The URA cannot prevent landlords from repossessing the property from the former tenants upon expiry of the tenancy, although policies are designed to discourage this as far as possible (SA at 50% of HPA is paid for both tenanted and vacant flats). Payment of HPA is subject to a sole residence criterion. The owner must show that he occupies the property as his sole residence in order to obtain full HPA. This and the restrictions under the current LTO make it difficult for owners to exploit the policy.

Position after Passage of the Bill

6. After passage of the current Bill, domestic tenants will no longer have security of tenure and it will be easier for landlords to require them to leave at the end of their tenancy periods. To guard against abuses by landlords, the URA will:

- Continue the policy that owners of both tenanted and vacant flats receive SA at 50% of HPA;
- Continue to apply the sole residence criterion; and
- Reserve the right, on a case by case basis, to treat properties in the announced LDC projects as tenanted if the landlord requires a tenant to leave after enactment of the Bill, and then occupies the premises himself (or moves in immediate family members) in an attempt to benefit from HPA but the sole residence requirement is not met. In such cases, the URA may pay SA (50% HPA) to the owner and offer re-housing/compensation to the former tenant provided the tenant was not in breach of his tenancy (e.g. by not paying rent). Full HPA may also be paid if the owner can show he had a genuine need to occupy the premises himself as sole residence. In this case, no compensation would be payable to the tenant. (This is the case even under the existing LTO.)
- In cases where landlords repossess the property upon expiry of the tenancy and move in more tenants to exploit tenant compensation policies (e.g. by sub-dividing flats or moving in relatives or acquaintances), the URA may decline to compensate the new tenants.

7. Individual cases will be considered on their merits and the facts of each case. These measures will be publicised after passage of the Bill to discourage abuses as far as possible.

8. The URA will continue to offer re-housing and compensation to domestic tenants required to move because of URA redevelopment projects. The URA Board will set re-housing and compensation policies from time to time to reflect current circumstances and based on the following principles:

- Re-housing and ex-gratia compensation policies should form a coordinated package designed to address the needs of clearerees as flexibly as possible.
- Physical re-housing should be the primary means of addressing clearerees' housing needs subject to their meeting the normal eligibility criteria.
- Ex-gratia allowances should be set at a level, which addresses the needs of clearerees but should not be so high as to discourage people from opting for re-housing.
- The policy should facilitate clearance and be simple to administer


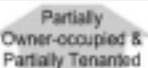


9. While details of future arrangements have yet to be agreed by the URA Board, we envisage two possible options:

- (a) Since most domestic tenancies are for a period of two years, the ex-gratia allowance could be based on a maximum of 2 x Rateable Value (RV.) Based on the experience of the first batch of URA projects of which the average RV is about \$45,000, we estimate that the ex-gratia allowance for an average unit will be about \$90,000.




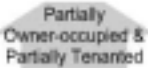

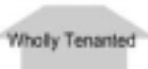
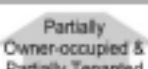
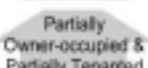
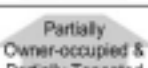
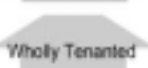
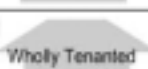
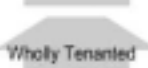


- (b) Alternatively, a disruption allowance, based on the incidental cost allowance paid to owner-occupiers of domestic properties (currently about \$87,500) but converted to a unit rate per square metre, could be paid to reflect the costs and disruption incurred by tenants when required to move.
- 10. In either options, sliding scale would be applied, whereby tenants would receive more the longer they have lived in the project area before clearance. A tenant, who has been resident in the area for two years or more would receive the maximum. For shorter periods, the amount would be reduced pro rata, e.g. a tenant with one year's residence would receive 1 x RV or 50% of the disruption allowance. The sliding scale would be subject to a minimum of 0.5 x RV (about six months' rent) or 25% of the disruption allowance to cover basic removal costs. The intention of the sliding scale is to pay more to long-term residents, who face greater disruption on moving.
- 11. Payments would be conditional upon tenants accepting the offer within a specified time period.

Appendix II : Domestic Properties - Diagrammatic Illustration of HPA, SA & EUV






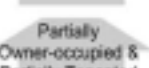

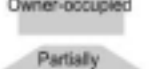
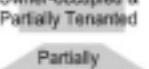
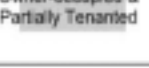

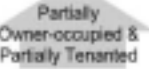





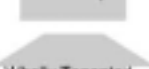
One Flat


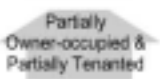
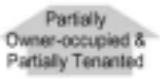
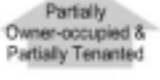
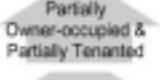
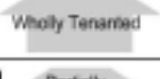

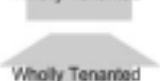





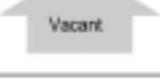
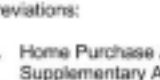
| Occupation Status | HPA | SA | Market Value |
|---|-------------------------------|------------------------|--------------|
| 1  Owner-occupied | 100% | | EUV(VP) |
| 2  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
| 3  Wholly Tenanted | | 50% | EUV(ET) |
| 4  Vacant | | 50% | EUV(VP) |

Two Flats

| Occupation Status | HPA | SA | Market Value |
|--|-------------------------------|------------------------|--------------------|
| 5  Owner-occupied  Owner-occupied | 100% | | EUV(VP) EUV(VP) |
| 6  Owner-occupied  Partially Owner-occupied & Partially Tenanted | 100% | | EUV(VP) EUV(ET) |
| 7  Owner-occupied  Wholly Tenanted | 100% | | EUV(VP) EUV(ET) |
| 8  Partially Owner-occupied & Partially Tenanted  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) EUV(ET) |
| 9  Partially Owner-occupied & Partially Tenanted  Wholly Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) EUV(ET) |
| 10  Wholly Tenanted  Wholly Tenanted | | 50% | EUV(ET) EUV(ET) |
| 11  Vacant  Vacant | | 50% | EUV(VP) EUV(VP) |

Three Flats

| Occupation Status | HPA | SA | Market Value |
|--|------|----|-------------------------------|
| 12  Owner-occupied  Owner-occupied  Owner-occupied | 100% | | EUV(VP) EUV(VP) EUV(VP) |
| 13  Owner-occupied  Owner-occupied  Partially Owner-occupied & Partially Tenanted | 100% | | EUV(VP) EUV(VP) EUV(ET) |
| 14  Owner-occupied  Partially Owner-occupied & Partially Tenanted  Partially Owner-occupied & Partially Tenanted | 100% | | EUV(VP) EUV(ET) EUV(ET) |
| 15  Owner-occupied  Partially Owner-occupied & Partially Tenanted  Wholly Tenanted | 100% | | EUV(VP) EUV(ET) EUV(ET) |
| 16  Owner-occupied  Owner-occupied  Wholly Tenanted | 100% | | EUV(VP) EUV(VP) EUV(ET) |
| 17  Owner-occupied  Wholly Tenanted  Wholly Tenanted | 100% | | EUV(VP) EUV(ET) EUV(ET) |

| Occupation Status | HPA | SA | Market Value |
|---|-------------------------------|------------------------|--------------|
| 18  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
|  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
|  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
| 19  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
|  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
|  Wholly Tenanted | | 50% | EUV(ET) |
| 20  Partially Owner-occupied & Partially Tenanted | Owner-occupied portion : 100% | Tenanted portion : 75% | EUV(ET) |
|  Wholly Tenanted | | 50% | EUV(ET) |
|  Wholly Tenanted | | 25% | EUV(ET) |
| 21  Wholly Tenanted | | 50% | EUV(ET) |
|  Wholly Tenanted | | 25% | EUV(ET) |
|  Wholly Tenanted | | | EUV(ET) |
| 22  Vacant | | 50% | EUV(VP) |
|  Vacant | | 25% | EUV(VP) |
|  Vacant | | | EUV(VP) |

Abbreviations:

HPA Home Purchase Allowance
SA Supplementary Allowance
EUV Existing Use Value
VP Vacant Possession
ET Subject to Existing Tenancy

The Principles Adopted by the Urban Renewal Authority for Tenant Re-housing and Cash Compensation

This leaflet briefly outlines the Urban Renewal Authority (URA) re-housing and cash compensation principles for affected tenants.

The Principles Adopted by URA for Tenant Re-housing

Domestic Tenants

Re-housing Arrangement

Eligible domestic tenants required to move out from properties affected by URA projects will be re-housed in units provided by the Hong Kong Housing Authority (HKHA) or the Hong Kong Housing Society (HKHS). Apart from that, they can opt for other subsidized housing schemes provided by HKHA and HKHS.

Re-housing Eligibility

1. The prevailing eligibility criteria for public housing of the HKHA and the HKHS will apply.
2. Domestic tenants who have been living in the project area before the project freezing survey will be eligible for re-housing subject to the eligibility criteria.

Ex-gratia Removal Allowance

1. Tenants who are re-housed as a result of a URA project will be offered an ex-gratia removal allowance. These allowances are in line with the HKHA's rates. Individual tenant will be informed of the allowance receivable according to the size of the household and the rates prevailing at that time.
2. Half of the total amount of ex-gratia removal allowance will be paid upon the execution of surrender agreement and the remaining half will be paid after the delivery of vacant possession.

Compassionate Re-housing

Households who do not meet the normal eligibility criteria may be re-housed on compassionate grounds if they would otherwise face genuine hardship arising from factors such as ill health, disability or family circumstances.

The Principles Adopted by URA for Domestic Tenant Cash Compensation

Domestic Tenants

Basic Cash Compensation

1. All eligible tenants who are affected by URA redevelopment projects, and whose landlords sell the property to URA subject to existing tenancies will be offered re-housing. Tenants who are not allocated re-housing unit due to various reasons, may receive basic cash compensation.
2. The basic cash compensation is calculated in accordance with the prevailing formula of calculating statutory compensation as stipulated in the Landlord and Tenant (Consolidation) Ordinance (LTO).

The present formula for calculating statutory compensation is as follows:

| <u>Rateable Value (RV) – HK\$</u> | <u>Statutory Compensation</u> |
|-----------------------------------|-------------------------------|
| the first \$30,000 RV | 7 times RV |
| the next \$30,000 RV | 5 times RV |
| the next \$30,000 RV | 3 times RV |
| the remaining RV | 1 times RV |

3. The amount of basic cash compensation will be reviewed by URA at its absolute discretion if there is any change in law relating to the payment of the said statutory compensation.

Cash Incentive

1. URA will offer a cash incentive of 70% of the basic cash compensation (subject to a maximum amount to be reviewed by the URA from time to time) to those tenants who accept the offers within a specified period as ex-gratia payments.
2. A minimum amount of HK\$70,000 for a one-person household and a minimum amount of HK\$80,000 for a two-person or larger household, inclusive of the cash incentive, will be payable to those tenants who have been genuinely living in the project area before the project occupancy survey and since then. The said minimum amounts are not applicable to those tenants with alternative accommodation.
3. Tenants (legal domestic tenants only) who moved into the project area after the project occupancy survey will only receive statutory compensation under LTO plus a 10% over such statutory compensation as cash incentive for acceptance within a specified period.
4. The above cash incentive and minimum amounts will be reviewed by URA at its absolute discretion if there is any change in law relating to the payment of statutory compensation under LTO.

Sample Cases in a URA Project - Acquisition Offer under Different Occupancy Status

Single Tenant per Unit

| Property | Market Value of the Property | Saleable Area (m ²) | URA Acquisition Offer | | | | | | | | | Difference (Total) | | | |
|----------|------------------------------|---------------------------------|---|--|---------------------------------------|-------------------------------|--|---------------------------------------|------------------------------|-------------------------------------|---------------------------------------|---|--------|--|---------|
| | | | Subject to Tenancy Basis Offer - Original Offer | | | Vacant Possession Basis Offer | | | Owner-occupied Basis Offer | | | Change from Tenanted Offer to Vacant Possession Offer (% of Original Offer) | | Change from Tenanted Offer to Owner-occupied Offer (% of Original Offer) | |
| | | | Market Value of the Property (6% less than Vacant Possession value) | Supplementary Allowance (at 50% Home Purchase Allowance) | Total (Round to the nearest thousand) | Market Value of the Property | Supplementary Allowance (at 50% Home Purchase Allowance) | Total (Round to the nearest thousand) | Market Value of the Property | Full Home Purchase Allowance (100%) | Total (Round to the nearest thousand) | | | | |
| Unit 1 | \$152,800 | 13.47 | \$152,800 | \$167,918 | \$321,000 | \$162,553 | \$167,918 | \$330,000 | \$162,553 | \$335,837 | \$498,000 | \$9,000 | (2.8%) | \$177,000 | (55.1%) |
| Unit 2 | \$491,620 | 52.02 | \$491,620 | \$700,870 | \$1,192,000 | \$523,000 | \$700,870 | \$1,224,000 | \$523,000 | \$1,401,740 | \$1,925,000 | \$32,000 | (2.7%) | \$733,000 | (61.5%) |

Multiple Tenant per Unit*

| | | | | | | | | | | | | | | | |
|--------|-----------|-------|-----------|-----------|--------------------|-----------|-----------|--------------------|-----------|-------------|--------------------|----------|--------|-----------|---------|
| Unit 3 | \$491,620 | 52.02 | \$491,620 | \$700,870 | \$1,192,000 | \$523,000 | \$700,870 | \$1,224,000 | \$523,000 | \$1,401,740 | \$1,925,000 | \$32,000 | (2.7%) | \$733,000 | (61.5%) |
|--------|-----------|-------|-----------|-----------|--------------------|-----------|-----------|--------------------|-----------|-------------|--------------------|----------|--------|-----------|---------|

Remark: *If an owner occupies part of the premises and the remaining area is leased out, the amount of offer lies between the offers on ET and O/O bases, depending on the size of the area occupied by the owner.

Sample Cases in a URA Project – Tenants’ Compensation

Single Tenant Per Unit

| Property | Market Value of the Property | Size (Saleable Area) | Rateable Value of the Property | Statutory Compensation | URA Ex-gratia Payment | Total Payment | Statutory Compensation as a percentage of Market Value of the Property | Total of Statutory & Ex-gratia Payments as a percentage of Market Value of the Property | Total of Statutory & Ex-gratia Payments as a Multiple of Monthly Rateable Value |
|----------|------------------------------|----------------------|--------------------------------|------------------------|-----------------------|---------------|--|---|---|
| Unit 1 | \$152,800 | 13.47 m ² | \$14,400 | \$100,800 | \$70,560 | \$171,360 | 66% | 112% | 143 months |
| Unit 2 | \$491,620 | 52.02 m ² | \$45,000 | \$285,000 | \$199,500 | \$484,500 | 58% | 99% | 129 months |

Multiple Tenant Per Unit

| | | | | | | | | | |
|--------|-----------|----------------------|----------|-----------|-----------|------------------------------------|-----|------|------------|
| Unit 3 | \$491,620 | 52.02 m ² | \$45,000 | \$257,550 | \$180,285 | \$437,835 (4 persons household) | | | |
| | | | | \$ 38,430 | \$80,570 | \$119,000* (1 person household) | | | |
| | | | Total | \$295,980 | \$260,855 | \$556,835 | 60% | 113% | 148 months |

Remarks: * Under the latest policy, the payment for this case would be \$70,000. Based on this revision, the total statutory and ex-gratia compensation vs. market value is 103% and the total amount payable would equate to 135 months of rateable value.