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香港特別行政區政府

The Government of the Hong Kong Special Administrative Region

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27 March 2007

Ms. Connie Szeto,
Clerk to Bills Committee,
Legislative Council Building,
8 Jackson Road, Central,
Hong Kong.

Dear Ms. Szeto,

**Bills Committee on Housing (Amendment) Bill
Follow-up to meeting on 16 March 2007**

The Administration undertook to provide information and written responses to issues raised by members at the Bills Committee meeting on 16 March 2007. The list of required information is now enclosed at **Annex**, please. Additional powerpoint presentation materials will be used at the meeting on 29 March 2007 for further illustration.

Yours sincerely,

(Raymond Wu)

for Permanent Secretary for Housing,
Planning and Lands (Housing)

c.c.

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**The Administration's Responses to Members' Requests
Raised at the Meeting of the Bills Committee on
Housing (Amendment) Bill 2007 on 16 March 2007**

INCREASE IN THE MRIR FIGURES

The upsurge in the Median Rent-to-Income Ratio (MRIR) is due to a wide range of extraneous factors other than the income of public rental housing (PRH) households and the rent they pay. As explained in our replies of 9 March 2007 and 14 March 2007, these factors include, inter alia, a huge surge in the proportion of small and elderly households, a sharp rise in the number of Comprehensive Social Security Assistance (CSSA) recipients among PRH tenants, the substantial improvement in living space, and the replacement of old estates by new ones. As regard the replacement of old estates, between 1996/97 and 2005/06, some 109 200 old PRH units with cheaper rents were demolished under the Housing Authority's (HA) Comprehensive Redevelopment Programme. These were replaced by 224 100 new units which have relatively higher rents but are also more spacious and with better facilities. In addition, over the past ten years, some 185 100 tenants left PRH and became home owners through various subsidized home ownership programmes. The exist of these tenants, who usually had higher income and hence lower rent-to-income ratio, has also contributed to the increase in the overall MRIR. In the tenth slide of our presentation at the meeting on 16 March 2007, we have already shown that if extraneous factors, such as the replacement of old PRH estates and exit of high income tenants but excluding the effect of changes in household size distribution on household income, were kept at the level as at the second quarter of 1997, the MRIR would drop from the existing 14.3% to 11.4%. If a rent reduction of 11.6% were to be introduced, the MRIR would drop further to 10.1%. If the changes in household size distribution were also discounted, the MRIR would drop to 10.1% and 8.9% after rent reduction of 11.6%.

2. Information on the number and percentage changes of tenants paying additional rent is set out below –

Year	No. of additional rent paying households [^]	Year-on-year change
1996/1997	30,200	-
1997/1998	23,900	-20.9%
1998/1999	19,000	-20.4%
1999/2000	15,300	-19.5%
2000/2001	12,700	-17.0%
2001/2002	11,100	-12.7%
2002/2003	11,600	4.4%
2003/2004	13,400	16.0%
2004/2005	15,000	11.5%
2005/2006	16,900	13.2%

Note: [^] Figures are as at end of financial year.

3. As noted in para. 1 above and our previous replies of 9 March 2007 and 14 March 2007, the movement in MRIR is subject to a host of extraneous factors which include but not limited to household size distribution. While the compilation of MRIRs of different household size groups would largely discount the effects of changes in household size distribution, the resultant MRIR of each household size group would still be influenced by other extraneous factors notably increase in the number of CSSA households and average living space per person. The following table shows the percentage change in MRIR of each household size group during 1999 and 2006, and the corresponding change in the median income. The disproportionate increase in the MRIR relative to the drop in the median household income of each household size group is largely attributable to the extraneous factors.

Household Size*	MRIR (%)			Median Household Income (\$)		
	2Q1999	3Q2006	% Change	2Q1999	3Q2006	% Change
1P	17.7	22.7	28.2	3,500	3,700	5.7
2P	12.9	17.2	33.3	8,200	7,300	-11.0
3P	9.5	12.2	28.4	12,500	12,200	-2.4
4P	8.5	11.9	40.0	15,000	14,000	-6.7
5P+	7.7	11.5	49.4	18,900	16,400	-13.2
Overall	9.8	14.3	45.9	12,600	10,800	-14.3

Note: * Since the number of sample observations for households with household size of six or above is small, there is insufficient data to provide accurate statistical results for households with household size of six or above. The sampling error for estimates based on only a small number of sample observations would be large.

4. The following table shows the effects of CSSA households on MRIR –

Household Size	3Q 2006			
	Proportion of CSSA households (%)	MRIR (%) (a)	MRIR (excluding CSSA Households) (%) (b)	% change between (a) and (b)
1P	44.1	22.7	18.5	22.7
2P	25.6	17.2	15.0	14.7
3P	13.1	12.2	11.0	10.9
4P	12.3	11.9	10.9	9.2
5P+	13.8	11.5	10.6	8.5
Overall	20.6	14.3	12.3	16.3

5. The effects of increase in living space is particularly significant for one-person households since they normally occupy more living space per person while for larger households, service areas such as kitchen and toilet can be shared among household members. A table showing the respective average living space per person of each household size group is set out below –

Household Size	Average living space per person (IFA sq.m.. / Person) (as at 3Q 2006)
1P	19.8
2P	14.0
3P	11.0
4P	9.4
5P+	8.0
Overall	12.1

6. If a rent reduction of 30% were to be introduced, the changes in the MRIR would be as follows –

2nd Quarter of 1997	9.1%		
3rd Quarter of 2006	Actual	Extraneous factors kept at the level of 2Q 1997 (except the effect of change in household size distribution on household income)	Extraneous factors kept at the level of 2Q 1997
	14.3%	11.4%	10.1%
After 11.6% rent reduction	12.6%	10.1%	8.9%
After 30% rent reduction	10%	8.0%	7.1%

RENT ADJUSTMENT MECHANISM

7. On a member’s proposal of a MRIR cap for each household size group, we have already explained in para. 3 and 4 above that MRIRs of different household size groups are still subject to the influence of extraneous factors other than household size distribution. In fact, however a “cap” based on MRIR (be it a cap for all households or a particular household size group) is derived, by its very definition, there will always be 50% of households with their rent-to-income ratios above any given MRIR figure. Furthermore, the proposed introduction of a MRIR cap for each household size group may give rise to a less than equitable situation in which similar PRH units in the same block would attract different rent level simply because the rent of a particular household size group (e.g. 3-person households) could be increased in one review, whereas the rent of another household size group (such as 2-person households) would need to be frozen simply because the prevailing MRIR of that group is above the prescribed cap. The situation would be even more undesirable and complicated if the household in a rent-freezing household size group vacates the unit and another household in a household size group with a MRIR below the cap moves in.

8. In view of the deficiencies of the MRIR, a more effective way to ensure that PRH rents are within tenants' affordability is to put in place measures based on individual households. In this regard, the Rent Assistance Scheme (RAS) of the HA already makes use of different indicators including rent-to-income ratios and income thresholds pitched at different levels of the respective Waiting List Income Limits to measure affordability at individual tenant level. Details of the RAS are in Appendix V to our reply of 9 March 2007.

9. As with any other adjustment mechanism designed to reflect the general change of a certain parameter (in this case the overall household income of PRH tenants), there are bound to be individuals with their individual rates of change different from, higher or lower than, the overall rate of adjustment. The question lies therefore whether very high income households exist and hence distort the resultant rate of adjustment. To this end, the proposed compilation methodology of the income index would effectively minimize possible distortion of this kind by excluding additional rent paying households from the coverage of the income index since these households are usually substantially better off than other PRH tenants. In addition, we would exclude households with top 1% of household income in each household size group from the calculation of the income index. Using income data collected through a mandatory declaration system instead of the voluntary General Household Survey conducted by the C&SD would also ensure the reliability and accuracy of the income index so compiled.

10. As illustrated in the eleventh and twelfth slides of our presentation at the meeting on 16 March 2007, in order to discount the effects of changes in household size distribution of PRH tenants and assess the "pure income change" between two time periods, we need to keep the household size distribution in the first period constant in any one particular rent review. The household size distribution weighting of each household size group in the first period would be applied to the calculation of the weighted mean monthly household income for both the first and the second periods. Unlike the statistical parameter of mean, however, median of a particular period cannot be derived by way of the "weighted average" method. In other words, the "weighted average" of median of each household size group is not equal to the overall median of all households. This limitation of median renders it not technically feasible to discount the household size distribution effects and to be adopted as a basis for

computing the income index values. Indeed, median is more often used as a descriptive statistic and seldom used as an input parameter for further statistical processing such as compiling an index. Many commonly known indices such as CPI and wage index are also compiled using mean instead of median.

11. To ensure the accuracy and reliability of the household income data for computing the income index, instead of relying on the voluntary General Household Survey (GHS) conducted by the Census and Statistics Department, the HA is collecting income data through a mandatory declaration system on a continuous basis all year round. Under the mandatory declaration system, the sampled households must report earnings of their individual household members included in the tenancies within a specified time frame under section 25 of the Housing Ordinance. The concept of “household size” is more clearly defined as all the household members on the tenancy record, whereas under the GHS, it refers merely to those members who are usually living in the flat. To ensure a sample size large enough for compiling the income index with good precision, we use a probability-based statistical method to draw a random sample of 2 000 PRH households each month. The income index will cover a period of 12 months amounting to a sample size of 24 000 PRH households. This sample size is sufficiently large compared with the sample size of some 6 000 PRH households under the GHS. We also adopt a systematic process, which is a statistical method of choosing a random sample, to select PRH households for inclusion in the survey so that the sampled households would be drawn from all PRH estates.

12. On a member’s suggestion of conducting a longitudinal survey (i.e. drawing the same households in the survey sample over time), weighing up all the relevant considerations, we are not in favour of the suggestion. First, the household size of sampled households might change over time. The selection of the “same” households in the survey cannot guarantee that we can assess the “pure income changes” of these households as the changes in household size would complicate the assessment of household income changes. Second, drawing the same households over time would leave out from the survey sample those new households who move to reside in public rental housing every month. Third, requesting the same households to repeatedly and regularly report their earnings would cause considerable disturbance to them. Under our monthly sampling method, no PRH household would be selected more than once within a period of 12 months.