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Chapter 1: Introduction

- 1.01 The Government recognises that the subject of using public resources to subsidise home ownership is being debated in the community. Fundamental issues have been raised which require in-depth consideration, such as the difference between home ownership and housing need; whether the Government should subsidise the public to invest or purchase residential properties; whether subsidising home ownership is sustainable in the long run or could merely address short-term situations, and whether the use of public resources to subsidise home ownership is acceptable having regard to the issue of fairness among different groups in the community.
- 1.02 The Transport and Housing Bureau (“THB”) conducted a public consultation exercise on the issue of subsidising home ownership from May to 17 September 2010. The Government would listen to the views of the public to try to identify consensus on a way forward. Views collected would be forwarded to the Chief Executive for his consideration.
- 1.03 This report on the consultation consists of two parts, namely the **main report** and the **appendices**. The former provides a summary analysis of the views collected while the latter contains the submissions and views collected during the consultation exercise as well as the report of the focus group study conducted by the Public Policy Research Institute (“PPRI”) of the Hong Kong Polytechnic University.

Chapter 2: The consultation

- 2.01 We have prepared a consultation framework to give focus to the debate and facilitate discussion. The consultation framework gives an overview of the current housing situation, considerations relevant to the issues concerning subsidising home ownership, and previous subsidising home ownership policy tools. Such tools, which may be in kind or in cash, included the Home Ownership Scheme (“HOS”) and the Private Sector Participation Scheme, the Sandwich Class Housing Scheme and the various housing loan schemes. A copy of the framework is at **Annex**. Members of the public and stakeholders were invited to express views on three Key Questions:

Should home ownership be subsidised?

Who should be helped?

What help should be offered?

- 2.02 The framework was uploaded on the dedicated consultation webpage on the THB website. Members of the public could browse the webpage for the consultation framework and related information. Hardcopies were also available for distribution at the public enquiry service centres of the Home Affairs Department and the estate management offices of the Hong Kong Housing Authority (“HKHA”) public rental housing (“PRH”) estates. Copies were also deposited at public libraries for viewing by the public.
- 2.03 To ensure extensive participation, we engaged the public and stakeholders through a variety of channels, including consultation forums and sessions, focus groups and e-engagement platforms. Members of the public were also invited to send in their views through electronic mail, facsimile or post (hereafter referred to as “regular channels”).

- 2.04 We organised three open consultation forums: two for the general public and one for interest groups. We also organised two dedicated forums for members of the District Councils and their co-opted members. All forums were independently moderated.
- 2.05 We also had discussion sessions with the Panel on Housing of the Legislative Council, the Commission on Strategic Development, academics, think-tanks, related professional bodies, real estate industry related organisations, as well as the HKHA, the Hong Kong Housing Society, the Urban Renewal Authority and MTR Corporation. We also attended the youth exchange session organised by the Commission on Youth. For those sessions that required moderation, we engaged an independent moderator to facilitate the discussions. Besides, we had either introduced the consultation framework or given a copy of the framework for participants' information during the aforementioned forums and sessions.
- 2.06 For focus groups, we commissioned the PPRI of the Hong Kong Polytechnic University to carry out an independent study to solicit views through a mix of respondents of different housing situations and age bands. The analysis of the focus group study was based on a data-driven approach, where the views expressed are first organised into "text units", and associated "salient points" are then derived. A "text unit" can be a phrase, a sentence or a sequence of sentences made by the participant during the focus group session and a "salient point" is a statement that is representative of one "text unit" or a group of similar "text units". Participants were randomly drawn from residents of different housing situations based on preset protocol and a set of objective criteria. Data from sixteen focus group sessions, conducted from end July to early September 2010, were analysed. The report of the study is enclosed in the appendices.

2.07 As regards views received through regular channels, we received some 940 written submissions from over 800 individuals. Around 90 individuals sent more than one submission to us. Repeated views from the same persons would not be given more weight in our analyses. During the consultation period, we also received over 40 submissions from 37 groups. All these have been included in the appendices.

2.08 As regards the e-engagement platforms, an online forum (“eForum”) and an official Facebook page were set up on 1 June 2010 on which members of the public could post their views:

(a) There were over 900 eForum registered users and some 1,300 persons joined the fan group of the official Facebook page.

(b) Among the eForum registered users, some 540 posted comments under the three Key Questions. They posted over 5,100 messages. It should be noted that some users posted messages frequently: some 40 users posted over 20 messages on the eForum, and one even posted as many as over 400 comments alone.

(c) As for Facebook, among the some 1,300 persons that joined the fan group, only some 150 persons posted messages and together they posted some 440 messages under the three Key Questions.

2.09 Analyses on eForum and the official Facebook page were made on a user-basis; repeated views from the same individual would not be given more weight regardless how active an individual was posting messages on both platforms.

2.10 The views collected in the consultation exercise are published in the appendices below:

Appendix I : Individual submissions by members of the public through regular channels, i.e. by post, email and facsimile; group submissions

Appendix II : Views posted on eForum and the official Facebook page

Appendix III : Records of consultation forums and sessions

Appendix IV : Focus group study report

Chapter 3: Views on Key Question 1: Should home ownership be subsidised?

Overview

- 3.01 On balance, there was support for subsidising home ownership though views were divided on eForum and Facebook page and there was more opposition in the focus group study. The main concern of those who support subsidising home ownership was the soaring property prices. Many considered the current prices to be beyond their affordability. They believed that subsidising home ownership would help foster a sense of belonging and social harmony. Some considered that it was the Government's responsibility to meet people's housing need. Others considered that subsidising home ownership could help people form families.
- 3.02 However, this view was not universal as there were also opposing voices from some contributors with strongly held views on this issue. Their key arguments were that people should rely on themselves and it was not fair to either the taxpayers or those home owners who had worked hard to buy their own flats. They considered the Government should not subsidise people's investment and that meeting people's housing need did not necessarily mean home ownership. A number of respondents pointed out that there were still sufficient affordable flats in Hong Kong. Others warned that the Government should learn from the bitter lessons of the late 1990s and early 2000s, when many home owners found themselves in a negative equity situation, and that the Government should not take the moral risk of enticing people to buy property but should let the market run its course. Some thought that subsidising home ownership would push up property prices and would drain away resources from other policy priorities.

Consultation forums and sessions

- 3.03 On balance, there was support for subsidising home ownership in the consultation forums and sessions. Their perception being that current prices were out of reach of the community and that it was the Government's responsibility to meet people's housing need. They believed that meeting people's housing need would be conducive to the stability of the society and facilitate the turnover of PRH.
- 3.04 On the other hand, there were also those who opposed subsidising home ownership. Some pointed out that the economic cycle was short and the market volatile. It might therefore be risky for the Government to subsidise home ownership. They opined that people should rely on themselves to fulfil their home ownership aspiration and that home ownership was not the only means to meet people's housing need. Some other considered it unfair to home owners who had worked hard to buy their own flats. They thought the Government should learn from the bitter lessons of the late 1990s and early 2000s when many home owners found themselves in a negative equity situation.
- 3.05 Views from a small number of people were not clear. Some indicated objection to a particular form of assistance but did not say whether they also objected to subsidising home ownership. Others merely said that Government's help was required but did not say whether such help should involve subsidising home ownership.

Individual submissions through regular channels

- 3.06 In individual submissions received through regular channels, on balance, there was support for subsidising home ownership. The key concerns were that prices were increasing to a level beyond affordability, and that subsidising home ownership would foster a sense of belonging and social harmony. They considered it the

Government's responsibility to meet the basic housing need of its people, and that home ownership would encourage family formation.

3.07 Again, however, there were also opposing views on subsidising home ownership. The main point was that people should fulfil their home ownership aspiration via their own means. Many pointed out the need to maintain fairness to taxpayers and home owners who had worked hard to buy their own flats, and that home ownership was not the only way to meet people's housing need. Others considered that the Government should let the market take its course and should not subsidise people for their investment. Some expressed worry that subsidising home ownership would divert resources from other policy priorities. Others drawn attention to the lessons learned in the late 1990s and early 2000s when property values tumbled.

3.08 The views of a small number of submissions were unclear.

Group submissions

3.09 As for group submissions, majority supported subsidising home ownership. Most remarked about the surge of property prices. A number of them opined that subsidising home ownership would be conducive to social harmony and stability. Some opined that housing expenses had become a heavy burden to many and that it was the Government's responsibility to meet people's housing need.

Submissions from eForum and official Facebook page

3.10 Views on the eForum and official Facebook page were divided.

3.11 For those who were in favour of subsidising home ownership, their main justification was that the property prices were way too high. Assistance towards home ownership would help people meet their

housing need and facilitate people to form families. They remarked that when housing expenses became too heavy a burden to the majority of the community, it was the Government's basic responsibility to help people out. These respondents said that assisting people to own their homes would forge a stronger sense of belonging and was conducive to social stability and harmony.

- 3.12 For those who opposed subsidising home ownership, the majority considered that people should take up their own responsibility in purchasing a flat and that it was unfair to taxpayers and homeowners if subsidy was granted. They also differentiated between home ownership and housing need, and considered that the Government should not subsidise people for their investment. They noted that there was a supply of affordable flats in Hong Kong, particularly in the New Territories. A number of people quoted the late 1990s and early 2000s experience and warned the Government against taking a moral risk of inadvertently pushing people to buy properties beyond their means via offering subsidies. Some opined that subsidising home ownership might further push up property prices and that it might adversely affect the resources for other policy priorities. They suggested the Government to let the market run its course.

- 3.13 Views from a small number of people were not clear.

Focus group study

- 3.14 As regards the focus group study, there were more comments opposing subsidising home ownership than those that support that policy. Generally speaking, save for HOS owners where views were divided, the majority of the comments from respondents of the other housing situations opposed subsidising home ownership.

- 3.15 Those who opposed said that the Government's responsibility was to provide basic protection but not to subsidise everyone to have his / her own home; lest that it would be unfair to home owners who had worked hard to buy their own flats. They opined that those who were unable to buy properties might rent and that the Government should not intervene. They further pointed out that the Government should not subsidise people's investment.
- 3.16 Those who supported believed that subsidising home ownership would be a sound policy direction and that the Government was responsible for meeting people's basic housing need. Some mentioned that the surge in property prices had made it difficult for many in the community to afford the down payment.

Chapter 4: Views on Key Question 2: Who should be helped?

Overview

- 4.01 Taking into account feedback through the regular channels, eForum, the official Facebook page, and consultation forums and sessions, over one-third of all the respondents had commented on this question.
- 4.02 Taking into account views collected from all channels, the majority of the respondents considered that assistance should be rendered to the sandwich class or those who just exceed the PRH income limits. Other commonly mentioned target groups included people who could not afford the down payment, first-time home buyers, young people and young families and sitting or prospective PRH tenants. Many mentioned that assistance should only be available to those with Hong Kong permanent residency.

Consultation forums and sessions

- 4.03 The majority of participants suggested that the Government should help the sandwich class or those who just exceed the PRH income limits. A number of them also suggested helping young people and young families, and sitting or prospective PRH tenants.

Individual submissions through regular channels

- 4.04 Again, the majority suggested helping sandwich class and those who just exceed the PRH income limits. Other more frequently mentioned groups included sitting or prospective PRH tenants, those who could not afford the down payment, first-time home buyers and young people and young families. Some said that Hong Kong permanent residency should be a prerequisite for enjoying such assistance.

Group submissions

- 4.05 As for group submissions, the majority supported assistance be given to the sandwich class and people who just exceed the PRH income limits. Other main target groups suggested included sitting or prospective PRH tenants, people meeting White Form criteria, first-time home buyers as well as young people and young families.

Submissions from eForum and official Facebook page

- 4.06 The majority supported helping the sandwich class and those who just exceed the PRH income limits. Other more frequently mentioned target groups included those who could not afford the down payment, young people and young families and first-time home buyers. Some remarked that the assistance should only be rendered to Hong Kong permanent residents.

Focus group study

- 4.07 There was no majority support toward helping any particular group. That said, respondents of the focus groups were inclined to support the Government to help newlyweds and those who just exceed the PRH income limits but who were unable to buy properties at the HOS Secondary Market or the private market. Many considered it reasonable to help only those with Hong Kong permanent residency.

Chapter 5: Views on Key Question 3: What help should be offered?

Overview

- 5.01 Taking into account feedback through the regular channels, eForum, the official Facebook page, and consultation forums and sessions, over half of the respondents suggested some form of subsidising home ownership measures.
- 5.02 Taking into account views collected from all channels, resumption of HOS and provision of housing loans attracted the most discussion, with varying degree of support or objection. Other frequently featured measures included revitalisation of the HOS Secondary Market, provision of housing with limited tenancy to enable beneficiaries to save money for future home purchase and resumption of Tenants Purchase Scheme (“TPS”).
- 5.03 Among those who commented on the resumption of HOS, more were in support. The respondents considered that it would help facilitate the turnover of PRH flats and cool down the property market. Some called for relaxing the eligibility criteria for HOS. Notwithstanding the above, there were also a significant number of respondents who opposed resumption of HOS. Many considered that it would drain away the already scarce land resources and given that production of HOS would take a long time, it would not help address current problems. Some felt that HOS would be unfair to those who narrowly fail the eligibility criteria.
- 5.04 The provision of housing loans was also frequently mentioned. However, there was more opposition than support for the idea. The view was that this would fuel the already spiralling property market. A number of respondents expressed concern that the measure would result in enticing people to make hasty or premature decisions in home purchase. Some felt that it would only benefit the real estate developers and aggravate speculation.

- 5.05 There was more support toward the revitalisation of the HOS Secondary Market among those who commented on it. Among them, a number of respondents proposed that people who meet the White Form criteria should be allowed to purchase flats on the HOS Secondary Market. Some expressed support for measures like payment of premium by instalments and the extension of the mortgage guarantee period for HOS flats by the HKHA.
- 5.06 As regards the idea of provision of housing with limited tenancy to enable the beneficiaries to save money for future home purchases, another more frequently mentioned measure, there was more support on the idea among those who commented on it. A number of them suggested that the beneficiaries should be allowed to purchase their own flats upon expiry of the tenancy. Some also suggested setting the tenancy between 5 to 10 years or below 5 years, and that market rental should be charged.
- 5.07 The resumption of TPS enjoyed more support among those who commented on it.
- 5.08 A number of respondents also suggested various forms of restrictions on the beneficiaries of subsidy schemes. To avoid fuelling speculative activities, they generally supported restricting the resale and renting out of the concerned flats. A considerable number of respondents also suggested that the flats concerned should only be used by the beneficiaries themselves and that income and asset tests should be applied.

Consultation forums and sessions

- 5.09 At the consultation forums and sessions, a majority of the participants suggested subsidising home ownership in some form. There was support for the resumption of HOS, which was the most discussed measure, on the grounds that it would facilitate the turnover of PRH, thereby shortening the waiting time of the PRH applicants. Some said that HOS would provide a chance for the sitting PRH tenants to improve their living environment. On the other hand, some participants opposed the resumption of HOS, as construction of HOS required a long lead time and as such HOS could not address current problems.
- 5.10 Other measures also mentioned frequently at the consultation forums and sessions included providing housing loans, housing with limited tenancy, revitalisation of the HOS Secondary Market and the resumption of TPS.
- 5.11 For housing loans, more opposed than supported this idea. For those who expressed support, they hoped that the Government would provide loans to first-time home buyers. Those who opposed however opined that such loans would further push up property prices and entice people to make hasty or premature decisions on home purchases.
- 5.12 Among those who expressed support to the provision of housing with limited tenancy, some suggested that the beneficiaries should be allowed to purchase the flats they reside in upon expiry of the tenancy.
- 5.13 As for the revitalisation of the HOS Secondary Market and resumption of TPS, views on the former were divided while there was support for the latter.

Individual submissions through regular channels

- 5.14 Over half of the individual respondents suggested measures for subsidising home ownership. Among them, there was support for the resumption of HOS, which was the most discussed measure, on the grounds that it would help cool down the property market and facilitate the turnover of PRH flats. Some other suggested that the HOS eligibility criteria should be relaxed.
- 5.15 As for those who opposed the resumption of HOS, some considered that HOS would drain away scarce land resources. Others noted the long lead time required for the delivery of HOS. Some said that it would be unfair to those who marginally fail the HOS eligibility criteria.
- 5.16 Other more frequently proposed measures included housing loans, revitalisation of HOS Secondary Market, resumption of TPS and provision of housing with limited tenancy.
- 5.17 On housing loans, views were divided. Those who supported suggested that loans could be provided to first-time home buyers and interest concessions could be provided. Those who opposed were concerned that such loans would further fuel property prices and speculative activities.
- 5.18 On the revitalisation of the HOS Secondary Market, on balance, there was support among those who commented on this. A number of them suggested allowing those who meet the White Form criteria to purchase flats at the HOS Secondary Market. Some also suggested allowing payment of premium by instalments.

- 5.19 There was also support for provision of housing with limited tenancy or resumption of TPS among those who commented on the two measures. For housing with limited tenancy, some said it would facilitate people to save money to achieve their home ownership aspiration. Some suggested allowing the beneficiaries to purchase the units they reside in upon expiry of the tenancy and that the limited tenancy could range from 5 to over 10 years.
- 5.20 A number of individual respondents also commented on the restrictions to be imposed on the beneficiaries of schemes that subsidise home ownership. Most of them considered that there should be restrictions on the resale and renting out of concerned flats. Other restrictions more frequently mentioned included requirement for self occupation of the units and application of income and asset tests on the beneficiaries.

Group submissions

- 5.21 For group submissions, the resumption of HOS was the most discussed. On balance, there was support for this measure. Some of these groups also made other suggestions, including resumption of TPS, revitalisation of HOS Secondary Market, provision of housing with limited tenancy, and provision of housing loans and cash subsidy. While views on housing loans and cash subsidy were divided, the other measures enjoyed more support among those who commented on them.

Submissions from eForum and official Facebook page

- 5.22 Less than half of the respondents suggested measures for subsidising home ownership. The resumption of HOS was the most discussed. There was, on balance, support for this with some pointing out that it would facilitate the turnover of PRH and help cool down the property market, while some other suggested relaxing the eligibility criteria for HOS.

- 5.23 Despite the above, a number of respondents did oppose the resumption of HOS on the ground that HOS would take away some of the already scarce land resources and that it would not solve immediate problems given the long construction period. Some said it was unfair to those who marginally fail to meet the HOS eligibility criteria.
- 5.24 Another key measure proposed was the provision of housing loans. More people opposed this idea. Many respondents expressed concern that housing loans would fuel the already spiralling property market, aggravate speculation and induce people to make premature decisions in home purchase. Some said that the biggest beneficiaries under housing loans would be the real estate developers.
- 5.25 As for the other more frequently mentioned measures, there had been some support for revitalisation of the HOS Secondary Market and provision of housing with limited tenancy. For the former, some suggested extending the mortgage guarantee period provided by the HKHA while some opined that White Form applicants should be allowed to purchase flats at the HOS Secondary Market. As for providing housing with limited tenancy, there were suggestions for providing short tenancy of less than ten or even five years and allowing the beneficiaries to purchase the flats they rented. Some respondents pointed out that housing with limited tenancy would facilitate people to save money to buy their own homes eventually.
- 5.26 Many also commented on the restrictions to be imposed on the beneficiaries. To avoid fuelling speculative activities, most supported restrictions on the resale and renting out of concerned flats. Some other supported restricting the units to self-use only and applying the income test on applicants. Some suggested that the schemes should only benefit those who have a job.

Focus group study

- 5.27 As regards the focus group study, while there were more views opposing than supporting subsidising home ownership, the resumption of HOS was the most discussed issue, assuming some form of subsidised home ownership were to be provided. Other frequently mentioned measures included the provision of cash subsidy and resumption of TPS.
- 5.28 Reasons given in support of the resumption of HOS were on the grounds that it would facilitate the turnover of PRH, that HOS was more affordable to young people and the sandwich class, and that HOS, given its lower price, was proven to be an effective means to meet people's housing need. Some suggested restricting the HOS buyers to sell their units to the Government should they wish to sell their flats, and that if the buyers failed to repay the mortgage, the Government would re-possess the units concerned.
- 5.29 Those who opposed the resumption of HOS opined that people should rely on their own means to achieve home ownership, that it would take a long time to build HOS, and that it would be an inefficient way to spend taxpayers' money. Some questioned if the resumption of HOS would help address the current problem, and some expressed concern that over-provision of HOS would adversely affect the property market.
- 5.30 As regards the provision of cash subsidy, most who commented on this opposed. They warned that provision of cash subsidy would lead to undesired outcome, e.g. bankruptcy, and fuel the already spiralling property market and speculative activities. The resumption of TPS enjoyed more support.
- 5.31 Many also commented on the restrictions to be imposed on the beneficiaries. They expressed support for imposing restrictions on the resale and renting out of the concerned flats, so as to avoid speculation.

Chapter 6: Other non-subsidising home ownership measures

- 6.01 Taking into account feedback through the regular channels, eForum, the official Facebook page, and consultation forums and sessions, we received from around half of the respondents proposals which do not involve subsidising home ownership.
- 6.02 Taking into account views collected from all channels, the key ones were summarised in this Chapter for completeness.

Overview

- 6.03 The two most common suggestions were to increase the land and flat supply and to stabilise the property market and combat speculative activities. Among these respondents, many suggested the Government to impose heavier taxes to curb speculation or to require developers to build more small to medium sized or lower priced flats.
- 6.04 There was considerable support for building more PRH, with some suggesting relaxing the eligibility criteria, and tightening the policies and enforcement against well-off PRH tenants. Others opined that the Government should adhere to its commitment to provide PRH to low income households with housing needs.
- 6.05 Other views included providing PRH for the middle class, regulating the real estate sector and reviewing the housing policy. Some mentioned about putting restrictions on non-locals in purchasing residential flats in Hong Kong.

Consultation forums and sessions

- 6.06 Half of the participants commented on proposals which do not involve subsidising home ownership. The most common suggestion was to increase land and flat supply, with some suggesting the Government to impose measures to require developers to build more small to medium sized or lower priced flats. Some saw a need to review the housing policy and support building more PRH. There was also support for measures to stabilise the property market and combat speculative activities, strengthen regulations over the real estate sector, and provide middle class PRH.

Individual submissions through regular channels

- 6.07 Around half of the respondents expressed views on measures which do not involve subsidising home ownership. The common ones included increasing land and flat supply, as well as stabilising the property market and combating speculative activities. Among them, some considered that the “high land price policy” should be abandoned and that the Government should impose measures to require developers to build more small to medium sized or lower priced flats. Others suggested curbing speculative activities through tax measures. Some mentioned restricting non-locals in their purchase of residential properties in Hong Kong.
- 6.08 Other key suggestions were to build more PRH, regulate the real estate sector and provide PRH for the middle class. Some looked to the Government to continue its commitment to provide PRH to the needy. Some respondents suggested relaxing the PRH eligibility criteria, tightening the policies and enforcement against well-off tenants while others said that the Government should review the housing policy.

Group submissions

- 6.09 Most of the group submissions commented on measures which do not involve subsidising home ownership. Among them, the majority suggested increasing the land and flat supply. Some suggested requiring developers to provide more small to medium sized or lower priced flats, and some called for a review of housing policy and more stringent regulation over the real estate sector. Some suggested constructing more PRH, relaxing the eligibility criteria for PRH and building PRH for the middle class.

Submissions from eForum and official Facebook page

- 6.10 About half of the respondents proposed measures which do not involve subsidising home ownership. The most common suggestions were to stabilise the property market and to combat speculative activities. For the latter, some of them proposed imposing heavier taxes. The other more common suggestions were to build more PRH and increase land and flat supply. Many also supported relaxing the PRH eligibility criteria and tightening the PRH well-off tenants policy and its enforcement.
- 6.11 The other minority suggestions included the construction of PRH for the middle class, stepping up regulation over the real estate sector, reviewing the housing policy and imposing restrictions on non-locals in purchasing residential flats in Hong Kong.

Focus group study

- 6.12 As regards focus group study, the most frequently mentioned measures concerned the regulation of property market and building more PRH. Many respondents called for an increase in land supply through, for example, regular land auctions. They said that the “high land price policy” should be abandoned and that the Government might require developers to provide more small to medium sized or lower priced flats. Some also suggested imposing taxes to combat speculation and restricting non-locals in purchasing residential flats in Hong Kong.
- 6.13 Building more PRH was another frequently mentioned suggestion. Many supported the Government to continue honouring its commitment to provide PRH to the needy. Some suggested relaxing the eligibility criteria and building PRH for the middle class.

Transport and Housing Bureau
October 2010

PUBLIC CONSULTATION
ON
SUBSIDISING HOME
OWNERSHIP

Transport and Housing Bureau

Objective of the Consultation Exercise

- The Chief Executive has stated that the Government's policy regarding residential property market is to respond to market demand through the supply of land, with the Application List System as the main axle supplemented by flexible improvement measures and land auctions from time to time so as to increase the land supply. Notwithstanding this, the Government recognises that the subject of using public resources to subsidise home ownership is being debated in the community. On this important subject, the Government will listen to the views of members of the public to try to identify a consensus on a way forward.
- Views and suggestions arising from this consultation exercise will be forwarded to the Chief Executive for his consideration.

2

Objective of the Consultation Exercise (cont'd)

- An extensive consultation exercise lasting up to 17 September 2010 is being undertaken to engage stakeholders and members of the public through various channels to look at issues relevant to this subject.
- On 17 May 2010, as part of the consultation exercise, the Housing Authority (HA) was consulted on proposals to revitalise the Home Ownership Scheme (HOS) Secondary Market. The Housing Department (HD) will continue the discussions with the HA on the proposed measures.

3

Introduction

4

Introduction

- When the Government repositioned its housing policy in 2002, it was against the backdrop that property prices had tumbled by over 60% against the peak in 1997. The volume of transactions also showed a marked decline. The plunging net asset values in the private residential market inhibited economic recovery, and many owners found that their property values had declined, forcing some into a negative equity situation.
- To redress the imbalance between supply and demand and to restore the confidence of the public and investors in the property market, the Government reviewed the overall housing policy and announced that it would no longer pursue the target of building a prescribed number of public and private flats a year. Government was of the view that it was unnecessary to continue to hang on to the long term target of achieving a 70% home ownership rate. Home ownership should be a matter of personal choice and affordability.

5

Introduction (cont'd)

- The Government's housing policy remains that as set out in the "Statement on Housing Policy" announced by the then Secretary for Housing, Planning and Lands in November 2002. That is, "delivering the overarching objective of providing subsidised rental housing for families in need must continue to sit at the very heart of the Government's housing strategy." This commitment to the provision of public rental housing (PRH) is firm and should not be changed as a result of the recent debate on subsidising home ownership.
- This does not mean that the Government disregards the home ownership needs of the public. The Government's role is to ensure a steady supply of land so that the residential property market can develop in a steady and healthy manner. The Government accords priority to monitoring the development of the private housing market.

6

Introduction (cont'd)

- On the front of land supply for the private sector, the Application List System supplemented by land auctions from time to time is the principal mechanism upon which the property market may respond to market demand. In this connection, in this year's Budget, the Financial Secretary has proposed four measures, including providing more land to increase the supply of small to medium sized domestic flats, enhancing market transparency, curbing speculative activities via tax measures, and preventing excessive borrowing.
- Our experience has shown that it is not possible to assess precisely the demand for housing in the private market. This may be affected by many factors, including changes in the social and economic environment such as market sentiment, liquidity, and interest rates. Moreover, Hong Kong is an open and free economy. There are no restrictions on the capital movements of overseas investors.

7

Introduction (cont'd)

- What we have put in place is a five-year rolling Public Housing Construction Programme (PHCP) to cater for the demand for PRH. It is a continuous process which is reviewed on an annual basis. The Government keeps in view various factors, including the projection of population growth, rates of increase in households and the number of applicants on the PRH Waiting List. According to the latest PHCP, the anticipated new PRH production during the five-year period starting from 2010/11 is about 75 000 flats, averaging about 15 000 flats per year. Together with the PRH flats to be recovered, this production level should allow the Government to meet its policy objective of maintaining the average waiting time for PRH at around three years.

8

Introduction (cont'd)

- Different countries/places have adopted different housing policies. Some adopt a universal approach to provide the whole population with homes subsidised by the Government, whereas others adopt a targeted approach in which housing assistance is provided to address the needs of specific low-income or vulnerable groups. In the case of Hong Kong, we have all along adopted a targeted approach with our commitment to help those in genuine need, while recognising that the private market also plays a significant role in housing provision. This is the foundation on which our housing policy rests.

9

Current Housing Situation

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Current Housing Situation

- At present, there are a total of 2.3 million households in Hong Kong, among which about 700 000 households or 2.1 million (roughly 30%) of the Hong Kong population live in PRH, and a further 380 000 households or 1.3 million (or 18%) of the population live in subsidised housing (including flats developed under previous HOS/Private Sector Participation Scheme (PSPS)/Sandwich Class Housing Scheme (SCHS)). The remaining 1.2 million households or 3.6 million (or 52%) of the Hong Kong population live in flats in the private sector.
- The total number of residential units stands at 2.5 million, among which about 1.1 million (45%) are in the public sector (including rental and sale flats developed by the HA and the Hong Kong Housing Society (HS)), and about 1.4 million (55%) are in the private sector.
- Overall home ownership has reached 53% in Hong Kong as a whole, and is at 70% for those residing in private sector flats.

11

Current Housing Situation (cont'd)

- There is clearly mobility between the public and private housing sectors. This occurs under the framework of "two markets" (i.e. HOS Secondary Market and the private property market) and "three levels" (i.e. HOS flat owners purchasing private properties upon selling their HOS flats; PRH tenants purchasing HOS flats in the Secondary Market; PRH flats thus vacated to be allocated to those in need).
- The Government has implemented measures to facilitate mobility between two 'levels' i.e. from PRH to HOS flats in the Secondary Market, including the Secondary Market Scheme under which HOS flat owners do not need to pay premium to the HA if they choose to sell their flats to existing PRH tenants and prospective tenants on the Waiting List (WL). The Government is seeking to further revitalise the HOS Secondary Market. Various proposals intended to achieve this end have been put up for the HA's consideration.

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Recent Public Discussions

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Recent Public Discussions

- Recently, there has been considerable public debate on issues relating to the subject of Subsidising Home Ownership. This has included calls for the resumption of HOS flat production and the revitalisation of the HOS Secondary Market. On the other hand, some have pointed out that, as shown from past trends in the property market, HOS flats cannot help curb the prevailing property prices. The majority view is that the problem must be tackled at source by increasing the supply of suitable low cost units for sale generally and only then can we ensure a healthy and stable development of the property market.
- In the public debate, fundamental issues have been raised which require in-depth considerations, such as the difference between home ownership and housing needs; whether the Government should subsidise the public to invest in/purchase residential properties; whether subsidising home ownership is sustainable in the long run or can merely address short term situations; and whether the use of public resources for subsidising home ownership is acceptable having regard to the issue of fairness among different groups in the community.

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Existing and Previous Policy Tools

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Existing and Previous Policy Tools

- There have been a number of different housing initiatives over the years. This section looks at the previous policy tools, their rationale, and their effectiveness.
- The previous policy tools include –
 - *The Home Ownership Scheme and the Private Sector Participation Scheme*
 - *The Sandwich Class Housing Scheme*
 - *The various housing loan schemes, including the Home Purchase Loan Scheme, the Home Starter Loan Scheme and the Housing Assistance Loan Scheme.*

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Existing and Previous Policy Tools (cont'd)

Home Ownership Scheme and Private Sector Participation Scheme

- The HOS was first launched in 1978 to promote home ownership and to provide an "exit option" for PRH tenants to leave the public rental sector thereby enabling others in need to take up the PRH units they had vacated. The HOS was administered by the HA and was for those who could not afford to buy private housing. Since its launch in 1978 over 220 000 HOS flats (including the Phase 1 to Phase 5 sale of surplus HOS flats) have been sold. The quota allocation split ratio between Green Form (GF) applicants (sitting PRH tenants and prospective PRH tenants who are due to be rehoused to PRH within one year) and White Form (WF) applicants has been adjusted on many occasions, from 50:50 for the initial phases, to 67:33, 60:40 and 80:20 since 1990 so as to encourage a turnover of PRH. For the sale of surplus HOS flats under Phase 6 this year, the quota allocation split ratio of 60:40 has been adopted.
- Supplementing the HOS, the PSPS was introduced in 1979. The intention was to harness the expertise and resources of private sector developers to produce HOS-equivalent flats for sale to applicants eligible for HOS flats. The eligibility criteria for PSPS was no different from that under the HOS. Since its inception, a total of around 100 000 flats have been sold under the PSPS.

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Existing and Previous Policy Tools (cont'd)

Home Ownership Scheme and Private Sector Participation Scheme (Cont'd)

- Against the background of the policy of the housing policy in November 2002, the production of HOS was terminated from 2003 onwards. The HA has put up for sale 16 700 surplus flats in an orderly manner from 2007 onwards in order to draw a close to the HOS. The HA will put up for sale some 4 000 remaining surplus HOS flats in June 2010 the earliest.

Cost of HOS

- For some 17 300 HOS flats sold before Phase 3B, the prices included the market value of the land, construction costs, other overheads and interest charges. Owners are free to dispose their flats in the open market after the expiry of the restriction period and no premium payment is required.
- However, in 1981, substantial rises in land prices, construction costs and mortgage interest rates could have rendered future HOS flats beyond the reach of the original target group. To counter this, the Government introduced a new pricing policy whereby land premium was excluded from the prices of the HOS flats to be sold from Phase 3B onwards. Flats prices are determined by making reference to comparable residential property transactions, multiplied by a discount rate set according to affordability. Upon expiry of the alienation restriction period, owners must pay a premium (calculated by multiplying the prevailing market value with the discount rate) for removal of the restrictions before they can sell, let or assign the flats in the open market.

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Existing and Previous Policy Tools (cont'd)

Sandwich Class Housing Scheme

- The 1992 Policy Address proposed to assist sandwich class home buyers which were defined as households with income above the upper limit and not qualified for HOS. The SCHS was introduced by the HS in 1993. Since its inception in 1993 around 9 000 flats have been put up for sale.
- In 1997, prices of private residential properties dropped substantially. Many private flats became affordable to the sandwich class group and there was a lukewarm response in the sales of SCHS thereafter. Accordingly, the Chief Executive announced in the 1998 Policy Address that further construction of SCHS flats would be suspended.

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Existing and Previous Policy Tools (cont'd)

Sandwich Class Housing Scheme (Cont'd)

- Over 1000 SCHS flats remained unsold until 2008. Some 200 flats were sold in 2008 and the remaining 800 flats were put up for sale in March 2010.

Cost of SCHS

- The Government provided sites to the Housing Society at half land premium for SCHS development. In other words, the Government's subsidy for a particular SCHS development was the half land premium of that site. This subsidy was transferred from the Housing Society to the buyers in the form of the discounted selling prices. In determining the selling prices and discounts of SCHS flats, HS would make reference to transaction prices of comparable residential property transactions and prospective applicants' affordability.
- Similar to HOS, SCHS flat owners must pay to the Government the premium for removal of the alienation restrictions. The premium is calculated by multiplying the prevailing market value with the discount rate.

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Existing and Previous Policy Tools (cont'd)

Housing Loan Schemes

- The HA introduced the Home Purchase Loan Scheme (HPLS) in 1988 to assist low income families to acquire home ownership in the private sector. The objective was similar to the that of HOS flats i.e. to provide an "exit option" for PRH tenants thus releasing PRH flats for re-allocation. In 1998 the Government introduced the Home Starter Loan Scheme (HSLs) to meet the home ownership aspiration of middle-class families. The HSLs was administered by the HS.
- In view of the substantial overlap between the clientele of the two schemes and to improve operational efficiency, a new loan scheme the Home Assistance Loan Scheme (HALS) was introduced by the HA in 2002 to replace the HPLS and the HSLs. The income and asset limits of the HALS were roughly comparable to that of HOS. 33 000, 57 000 and 9 000 households received home ownership loans under HSLs HPLS and HALS respectively.

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Existing and Previous Policy Tools (cont'd)

Housing Loan Schemes (Cont'd)

- Against the background of the repositioning of the housing policy in November 2002 the HALS was reviewed and terminated from 2004 onwards. This enabled the Government to concentrate limited resources on its more focused role of providing PRH to those in need.

Cost of Housing Loan Schemes

- Each loan/subsidy case under the HALS involved an average subsidy of about \$170,000 at 2004 price level. The estimation made in 2004 was that a cash flow of \$3.2 billion was required for a quota of 10 000. On top of that there were also administrative costs in running the schemes and default risks over the term of the loans. There are around 3 700 default cases under the loan schemes, involving around \$0.9 billion.

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- *When deliberating on whether and how the Government should subsidise home ownership, we consider it necessary to bear in mind the following factors -*

- (a) Land Resources Implications
- (b) Production Lead Time for Subsidised Housing
- (c) Sustainability
- (d) Fair Use of Public Resources

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(a) Land Resources Implications

- In Hong Kong, land is a scarce resource and there are competing demands for land. If land for PRH development is to be used for subsidised housing, the long-term land supply problem for PRH development would be exacerbated. Compared with the PRH, for the same amount of land, subsidised housing projects like HOS produce fewer flats and accommodate a smaller population due to different flat sizes and living density.
- If land earmarked for private residential development is re-allocated for subsidised housing projects, there will be less land for private residential property development, which will result in a reduction in the supply of private flats and hence may weaken the market's responsiveness to market trends.
- We may of course develop new land but that would require much time.

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(b) Production Lead Time of Subsidised Housing

- Resumption of an subsidised housing such as HOS would require a production lead time of at least 5 to 7 years before any new units are available for sale.

(c) Sustainability

- Any policy tool must be sustainable in the long run and should not merely address short term situations.
- The Government is determined to maintain an adequate supply of residential flats through the existing land supply framework but constantly has to balance the differing demands on this limited resource.

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(d) Fair Use of Public Resources

- The Government also recognises that the use of public money to support home ownership must be acceptable to the community as a whole, having regard to the issue of fairness for different groups in the community, including home owners, prospective first-time buyers, those who rent their homes, those who live in PRH other taxpayers, etc.

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Current Situation of the Residential Property Market

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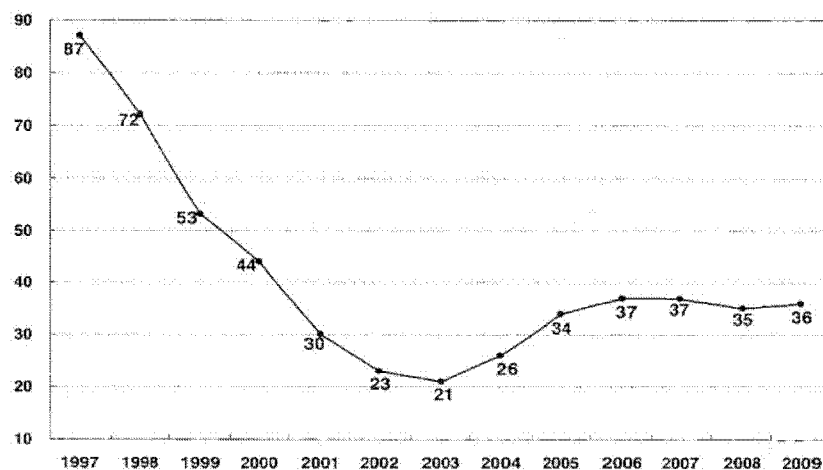
Mortgage-to-Income Ratio

- In general, when we talk about affordability, we look at the mortgage-to-income ratio (MIR).
- MIR shows the percentage of the monthly household income which a family has to deploy to repay the monthly mortgage loan. It is worked out on the basis that a private sector household with a median household income purchases a flat of 45m² (484 sq. ft.) in saleable area and takes a mortgage loan at 70% loan-to-value ratio with a repayment period of 20 years at prevailing interest rates.
- The MIR ratio was 38% in the fourth quarter of last year and 42% in the first quarter of 2010 (preliminary figure). The average for the past 20 years (i.e. from 1989 to 2008) is 53%.

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Mortgage-to-Income Ratio from 1997 to 2009

The trend of MIR over the past years is as follow -



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Mortgage Insurance Programme

- At present, there are numerous mortgage loan plans offered by lending institutions to meet the diverse needs of customers. In addition, the Hong Kong Mortgage Corporation (HKMC) also provides mortgage insurance under the Mortgage Insurance Programme (MIP) to lending institutions so that lending institutions may lend mortgage loans of up to 95% of the assessed value of a flat. Without mortgage insurance, lending institutions may only lend up to 70% of the assessed value of a flat.
- 25 lending institutions participate in the MIP. On average, over 1 000 new mortgage loan cases per month are MIP-insured and the average mortgage loan amount is around \$2.1 million.
- For example, for flats valued around \$2 million with mortgage loans up to 95% and a tenor of 25 years, assuming a mortgage interest rate of 2.5%, the amount of premium for the MIP will be around \$300 per month if paid concurrently by installment with the mortgage loan; for flats valued around \$3 million, the premium amount will be around \$500.

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Transactions of Private Residential Properties

- On average, there were about 99 000 private residential flat transactions each year from 2003 to 2009, of which about 18 500 transactions were in the primary market and the remaining 80 500 transactions were in the secondary market. In other words over 80% of the property transactions were secondary market transactions.
- In fact many first-time home buyers choose second-hand flats which are in general more affordable and then change to bigger and newer flats including first-hand flats when their earning power and the value of their existing flats increase.
- The transaction figures over the past few years clearly show that the secondary market is an important and indeed the major source of flat supply for new home buyers.

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Transactions by Primary and Secondary Markets (2003 – 2009)

	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009 (%)
Primary	26 498	25 694	15 994	13 986	20 123	11 046	16 161	18 500 (19%)
Secondary	45 078	74 936	87 368	68 486	103 452	84 885	98 931	80 448 (81%)
Overall	71 576	100 630	103 362	82 472	123 575	95 931	115 092	98 948

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Primary Market Transactions(2003-2009)

- In terms of breakdown by transaction value in the primary market, from 2003 to 2009, about 4 800 (i.e. 26%) out of an annual average of 18 500 transactions were transactions valued below \$2 million.

Primary Market (No. of Transactions)	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009	%
Less than \$2M	14 343	6 500	1 830	2 070	5 170	1 887	1 484	4 755	25.7
\$2M to less than \$5M	9 097	15 504	9 627	9 539	9 273	4 550	8 363	9 422	50.9
\$5M to less than \$10M	2 523	2 370	2 515	1 815	3 268	3 099	3 441	2 719	14.7
\$10M and above	535	1 320	2 022	562	2 412	1 510	2 873	1 605	8.7
Total	26 498	25 694	15 994	13 986	20 123	11 046	16 161	18 500	100

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Secondary Market Transactions (2003-2009)

- In terms of breakdown by transaction value in the secondary market, from 2003 to 2009, about 49 000 (i.e. over 60%) out of an annual average of 80 448 transactions were flats valued below \$2 million.
- These figures show that the secondary market is an important and indeed the major source of flat supply for home buyers especially for first-time homebuyers.

Secondary Market (No. of Transactions)	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009	%
Less than \$2M	36 289	50 703	54 238	44 368	60 748	45 915	52 204	49 209	61.2
\$2M to less than \$5M	6 449	17 503	25 569	17 736	30 596	29 387	35 641	23 269	28.9
\$5M to less than \$10M	1 566	4 609	5 260	4 352	7 838	6 435	7 258	5 331	6.6
\$10M and above	774	2 121	2 301	2 030	4 270	3 148	3 828	2 639	3.3
Total	45 078	74 936	87 368	68 486	103 452	84 885	98 931	80 448	100

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Overall Private Residential Transactions by Transacted Value (2003-2009)

- When we look at the overall transaction in terms of transactions value from 2003 to 2009, the majority of the overall transactions (including primary and secondary) were valued below \$2 million. These transactions accounted for roughly around 50% of the overall transactions.

Total (No. of Transactions)	2003	2004	2005	2006	2007	2008	2009	Average 2003 - 2009	%
Less than \$2M	50 638	57 206	56 068	46 438	65 918	47 802	53 688	53 964	54.5
\$2M to less than \$5M	15 542	33 005	35 196	27 275	39 869	33 937	44 004	32 691	33.0
\$5M to less than \$10M	4 087	6 978	7 775	6 167	11 106	9 534	10 699	8 050	8.1
\$10M and above	1 309	3 441	4 323	2 592	6 682	4 658	6 701	4 244	4.3
Total	71 576	100 630	103 362	82 472	123 575	95 931	115 092	98 948	100

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Projected Supply of Small and Medium-sized Flats

- The latest forecast is that about 33 000 units out of the 56 000 units (i.e. 59%) which are projected to be available on the private residential market in the next three to four years will be small and medium sized flats of less than 70m².
- The Government will liaise with the MTR Corporation Limited (MTRCL) and the Urban Renewal Authority to increase the supply of small and medium sized residential flats in the West Rail property development projects and urban renewal projects respectively. On this front, for the future property development above the Wong Chuk Hang depot/station of the South Island Line project, the MTRCL, will introduce for the first time the provision of flats of prescribed size and about 20% of the flats will be small-sized flats of about 50 m².
- The Government also plans to sell by open tender a site of about 1.2 hectares near the West Rail Long Ping Station in Yuen Long for private residential purposes and will increase the supply of small and medium sized flats by specifying in the land sale conditions requirements in terms of the minimum number of flats and the range of the sizes of these units.
- The HA will put up for sale the remaining 4 000 or so surplus HOS flats earliest in June this year. The HS is now selling the remaining 800 or so surplus Sandwich Class Housing Scheme flats.
- In addition, the secondary market continues to represent an important and major source of small and medium-sized flats.

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HOS Secondary Market

- Second-hand subsidised flats are also another important source of supply of small and medium sized flats at affordable prices.
- At present there are more than 320 000 HOS flats. Over 65 000 are flats with premium paid and 255 000 or so are flats with premium not yet paid. The former can be put up for sale in the open market readily; the latter can be sold in the HOS Secondary Market and, upon payment of premium may also be sold on the open market. 70% of these HOS flats are located in urban and extended urban areas. Facilitating the turnover of these flats may cater for demand for flats in the low-end property market.
- Most of the recent transactions involving second hand HOS flats were around \$2 million.

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HOS Secondary Market (cont'd)

- Facilitating the turnover of HOS flats is conducive to increasing the supply of small and medium sized flats. We have come up with possible measures to revitalise the HOS Secondary Market and have commenced discussions on these with the HA. They include -
 - extension of the mortgage default guarantee period by the HA
 - provision of a loan guarantee scheme by the Hong Kong Mortgage Corporation to facilitate owners' premium payment by installment
 - streamlining administrative arrangements and enhancing publicity
- By adopting measures to revitalise the HOS Secondary Market, we believe that the supply of small to medium-sized flats in the market will in turn increase.

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Factors Affecting Home Ownership Decisions

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Factors affecting Home Ownership Decisions

- The aspiration of family to purchase a flat and whether he can effectively act on that aspiration is affected by many interacting factors, such as the monthly amount a family can spare for regular mortgage repayments; the maximum mortgage loan as expressed in terms of the loan-to-value ratio which lending institutions will offer; the mortgage interest rate; the repayment period for the mortgage loan; the readiness of the family to meet the out-of-the-pocket down payment; the difference between rental costs and flat prices; the availability of the appropriate types of flats in both primary and secondary markets; and overall market demand.
- For anyone contemplating a home purchase, these issues have to be assessed individually and carefully before a decision can be taken. Any mistake may result in serious consequences for families including the loss of their home or life-long saving.

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Beneficiaries of Different Schemes

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Beneficiaries of Different Schemes

Home Ownership Scheme

- HOS flats are intended for both GF applicants and WF applicants. WF applicants are households whose income and asset limits are higher than those prescribed for PRH applicants but who may still have difficulty in purchasing a private residential flat in the second-hand market. GF applicants are not subject to income and asset limits under HOS.
- The income and asset limits for the coming sale of HOS surplus flat Phase 6 earliest in June 2010 are –

<u>Family size</u>	<u>Income limit</u>
Singleton	\$13,500
Family	\$27,000
<u>Family size</u>	<u>Asset limit</u>
Singleton	\$265,000
Family	\$530,000

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Beneficiaries of Different Schemes (cont'd)

Sandwich Class Housing Scheme (SCHS)

- People whose income levels are above the former HOS limits but qualified for aided housing were identified as "Sandwich Class" (with a monthly income between \$18,000 and \$40,000 when the scheme was first launched in 1992/93). Generally the eligible groups were made up of young professionals and middle managers. Same as HOS, GF applicants are not subject to income and asset limits.
- In the sale of SCHS flats launched in March 2010, the following income and asset limits are adopted –

<u>Family size</u>	<u>Income limit</u>
Singleton	\$19,500
Family	\$23,001-\$39,000
<u>Family size</u>	<u>Asset limit</u>
Singleton	\$0.6 million
Family	\$1.2 million

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Beneficiaries of Different Schemes (cont'd)

Tenant Purchase Scheme

- The TPS was introduced by the HA in 1998 to provide an opportunity for PRH tenants who otherwise could not afford to purchase private housing to become home owners.
- In 2002 the Government announced the repositioned housing policy and, among other things, recommended to the HA to halt the TPS. In support of the Government's repositioned housing policy, the HA decided to stop the TPS after the sale of Phases 6A and 6B of the remaining HOS flats which had already been announced for sale.
- TPS applicants who are PRH tenants and others with GF status are not subject to income and asset limits.

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Beneficiaries of Different Schemes (cont'd)

Housing Loan Schemes

- Similar to the function of HOS, HPLS was targeted at low-income families whereas the HSLS targeted at middle-class families. As such the income and asset limits for HSLS were higher than those for HPLS.
- For example, the monthly income and asset limits for families (of 2 to 8 persons) for HPLS were \$25,000 and \$600,000 - \$630,000 while for HSLS the limits for all family applicants were \$50,000 and \$1,000,000 respectively.
- GF applicants were not subject to income and asset limits under the HPLS. For HSLS, the income and asset limits applied to both GF applicants and WF applicants.

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Beneficiaries of Different Schemes (cont'd)

Housing Loan Schemes (cont'd)

- As for HALS which was introduced to replace the HPLS and the HSLS in view of the overlap in the clientele, the target group was those covered by the two previous schemes and the income and asset limits were roughly comparable with that of HOS which stood at \$23,000 and \$480,000 - \$560,000 for families (of 2 to 8 persons). Similarly GF applicants were not subject to income and asset limits under the HALS.

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Beneficiaries of Different Schemes (cont'd)

- Hence our target groups may be broadly categorised into -
 - *existing PRH tenants and others with GF status, and*
 - *those who were not eligible for PRH and yet could not afford to purchase private residential flats.*
- In respect of subsidised housing policy (including HOS), priority has all along been granted to PRH tenants and others with GF status so as to encourage the turnover of PRH for allocation to low income families in need. Under the existing markets, there are ready channels for GF holders to purchase HOS/TPS units through the Secondary Market Scheme without the need to pay premium.
- As for those with WF status, they may also purchase HOS flats in the open market or purchase surplus HOS flats from the HA. The sale of surplus HOS flats is scheduled to be completed this year.

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The present situation of the housing market in Hong Kong can be summarised as follows-

- At present, 53% of the total number of households in Hong Kong live in self-owned properties. About 70% of those households residing in private residential flats own their properties.
- The secondary market continues to represent an important and major source of small and medium-sized flats.

You may wish to bear in mind the following considerations when deliberating the issues concerning subsidising home ownership –

- Any policy to support subsidising home ownership must be sustainable in the long run and should not merely address short term situations.
- An adequate PRH and private housing supply will continue to be sustained through the existing land supply framework as expounded by the Financial Secretary in his Budget Speech and Response.
- Any subsidised home ownership scheme should not just be designed to deal with any so called “anti-cycle” effect. Past experience has shown that there is no correlation between the number of subsidised sale flats put up for sale and the overall residential flat prices.
- The use of public resources to support any subsidised home ownership scheme must be acceptable to the community as a whole, having regard to the issue of fairness among different groups in the community.
- Any subsidised home ownership policy should not undermine the can-do spirit of the Hong Kong people as this is the key to Hong Kong’s success and the core of Hong Kong’s values.

Key Questions

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Key Question 1: Should home ownership be subsidised?

- If we were to subsidise home ownership, what should the policy objectives be?
- For those who can afford to purchase a home in the private sector, should they continue to rely on their own means and the tools available in the market to fulfill their home ownership aspirations?
- Is there a role for the Government to play a more active part in subsidising home ownership for those who otherwise cannot afford to buy properties from the private market?
- Is the proposal to subsidise home ownership sustainable in the long run and not for merely addressing short term situations?

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Key Question 2: Who should be helped?

- For the rational use of public resources, should any form of home ownership subsidised by the Government target only at those who are caught between eligibility for PRH and HOS Secondary Market or the private market, but who should be able to afford in the long term to purchase their own homes? Are they those who have been trying to save up for many years but are yet unable to buy in the private market?
- Should any form of subsidised home ownership provided by the Government be targeted at certain income segments only? How can such a group be defined? What are the justifications to single out this group vis-à-vis other groups in the community?
- If indeed such a group can be identified for assistance, should certain criteria/restrictions apply?
- Irrespective of the form of subsidised home ownership, consideration should be given as to whether we should continue to grant priority to PRH tenants and others with GF status so as to encourage the turnover of PRH for allocation to low income families in need.

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Key Question 3: What help should be offered?

- Which form(s) of assistance will better meet the abovementioned factors (i.e. land resources implications, production lead time for subsidised housing, sustainability, and fair use of public resources, etc.)?
- Can reference be drawn to the criteria used in previous programmes for example, domestic properties test (e.g. not owning properties in the past for a certain period of time); 7-year residence in Hong Kong; income and asset limits according to the existing mechanism for WF HOS applicants; live-in requirement, etc.?
- Other possible criteria can also be considered, such as restrictions to resell, restrictions to rent, first time home purchase, those who cannot afford downpayment (and who are they given the existing mortgage insurance programme?), young families (target group to be differentiated by age?), etc.

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Your Views Invited

Please send your views to the Transport and Housing Bureau on or before 17 September 2010 by

email : views@thb.gov.hk
fax : 2761 6822
post : Transport and Housing Bureau
 16/F, Murray Building
 Garden Road, Central, Hong Kong

Please state in your incoming correspondences or envelopes that the views are made in response to the public consultation.

You are also welcome to express your views at our eForum or official page at facebook. The eForum and official page at facebook can be accessed through the Transport and Housing Bureau webpage at <http://www.thb.gov.hk>.

Note :

All submissions in their original form (including senders' names, but with other personal information such as email addresses removed) will be included in the compendium which will form part of the report on the Consultation.

1 June 2010