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Panel on Housing

Subcommittee on the Long Term Housing Strategy

Minutes of the meeting
held on Wednesday, 20 March 2013, at 8:30 am
in Conference Room 3 of the Legislative Council Complex

Members present : Hon WONG Kwok-hing, MH (Chairman)
Hon Tony TSE Wai-chuen (Deputy Chairman)
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon Abraham SHEK Lai-him, SBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Vincent FANG Kang, SBS, JP
Dr Hon LAM Tai-fai, SBS, JP
Hon IP Kwok-him, GBS, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Hon WU Chi-wai, MH
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Alice MAK Mei-kuen, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung
Dr Hon Fernando CHEUNG Chiu-hung
Ir Dr Hon LO Wai-kiwok, BBS, MH, JP
Hon Christopher CHUNG Shu-kun, BBS, MH, JP

Member attending : Hon LEUNG Yiu-chung

Members absent : Hon Paul TSE Wai-chun, JP
Hon WONG Yuk-man
Hon Michael TIEN Puk-sun, BBS, JP

Public Officers attending : **For item II**

Mr D W PESCOD, JP
Permanent Secretary for Transport and Housing
(Housing)

Miss Agnes WONG, JP
Deputy Secretary for Transport and Housing (Housing)

Mr Anson LAI
Assistant Director (Strategic Planning)
Housing Department

Mr Adolph LEUNG, JP
Principal Economist (2)
Financial Secretary's Office

Mr John LAM
Senior Statistician (Census & Demographic)
Census and Statistics Department

Clerk in attendance : Ms Miranda HON
Chief Council Secretary (1)1

Staff in attendance : Mr Jackie WU
Research Officer 1

Mr Raymond CHOW
Council Secretary (Research)1

Miss Lilian MOK
Council Secretary (1)1

Miss Mandy POON
Legislative Assistant (1)1

Action

I. Items for discussion at the next meeting

(LC Paper No. CB(1)708/12-13(01) — List of proposed items for discussion)

The Chairman advised that he and the Deputy Chairman had held an informal meeting with the Secretary for Development on 5 March 2013 to discuss the work plan of the Subcommittee. The updated work plan of the Subcommittee was reflected in the "List of proposed items for discussion" (LC Paper No. CB(1)708/12-13(01)), which had incorporated the proposed timing for discussing some items as suggested by the Transport and Housing Bureau.

2. Members agreed that the next meeting of the Subcommittee would be held on Tuesday, 30 April 2013, at 2:30 pm to discuss the following items –

- (a) The Housing Authority's Quota and Points System for non-elderly one-person applicants for public rental housing; and
- (b) The Housing Authority's "Well-off Tenants Policies".

II. Projection of housing demand

(LC Paper No. CB(1)708/12-13(02) — Administration's paper on "Projection of housing demand"

LC Paper No. IN14/12-13 — Information note on "Housing demand in Hong Kong" prepared by the Research Office of the Legislative Council Secretariat)

3. The Chairman and Dr Fernando CHEUNG expressed appreciation about the effort made by the Research Office of the Legislative Council ("LegCo") Secretariat in preparing the information note on "Housing demand in Hong Kong" ("the Information Note") (LC Paper No. IN14/12-13) for members' reference.

4. The Permanent Secretary for Transport and Housing (Housing) ("PSTH(H)") briefed members on the approach to assess long-term housing demand. He advised that the Long Term Housing Strategy ("LTHS") Steering Committee had discussed the key components to be included in the projection of long-term housing demand, and further analysis would be conducted shortly. Given that housing demand was dynamic and evolving with socio-economic and

demographic changes, the methodology to be adopted to project the overall housing demand of Hong Kong might be refined and adjusted as time progressed.

5. The Assistant Director of Housing (Strategic Planning) ("ADH(SP)") then gave a power-point presentation on the approach to assess long-term housing demand, which was defined as the total number of new housing units required to be built if each and every household was to be accommodated in adequate housing over the long term. He highlighted that the preliminary views as set out in the Administration's paper on the projection of long-term housing demand should be taken with caution as further analysis and study would be made before reaching any conclusion. Members' views and concerns, if any, on the subject would be referred to the LTHS Steering Committee for further deliberation. It was planned that a consultation document setting out the projection of long-term housing demand together with the recommendations put forth by the LTHS Steering Committee would be published in around mid 2013 for public consultation.

(Post-meeting note: A set of the power-point presentation materials on the subject was circulated to members vide LC Paper No. CB(1)742/12-13(01) on 20 March 2013.)

Projection of long-term housing demand

6. Mr Alan LEONG was of the view that the accuracy of housing demand forecast largely depended on the quality of data collected and the validity of the assumptions used in the housing demand model adopted. Noting that the Administration had conducted similar studies in 1987 and 1996 to forecast the overall long-term housing demand of Hong Kong, Mr LEONG enquired whether the Administration had made reference to the previous housing demand models and the "Study of Housing Demand Model" conducted by the then Research and Library Services Division of the LegCo Secretariat in October 1996 in the current LTHS review. PSTH(H) responded that reference had been made to the previous housing demand projection methodologies. However, the Administration considered it more desirable to adopt a new housing demand methodology that fit the unique and prevailing circumstances of Hong Kong.

7. In response to Mr Alan LEONG's further enquiry about the inadequacies of the housing demand projection methodology of 1996 which might have caused the current serious imbalance between housing supply and demand, PSTH(H) explained that any methodology used to derive projection for future events would inevitably have limitations, in particular time limitation, given the constantly changing situation of households and people. The data or figures obtained in a study would at best be a snapshot of the situation at a particular moment. As such, the Administration planned to produce a range of long-term

housing demand projections, instead of a single projection, and adopt a "flow" concept (i.e. the net change in the number of households that required adequate housing over a period of time), rather than a "stock" concept (i.e. the number of households at a particular point of time), in order to cater for different socio-economic scenarios.

8. In response to Miss Alice MAK's enquiry about the adoption of the "flow" concept to project long-term housing demand, PSTH(H) explained that housing demand would vary as time and circumstances changed. The Administration therefore considered it more desirable to adopt the "flow" concept, which focused on the changes in the number of households that required adequate housing over a period of time, in designing the methodology to assess housing demand under different socio-economic scenarios. The Administration expected that the housing demand projection methodology to be designed would not only be flexible and be able to cater for different circumstances, it would also be indicative of the types of housing and number of units to be built in the next 10 years. Nonetheless, the commitment to provide PRH to people who could not afford private rental accommodation would continue to be upheld, irrespective of whether the "flow" concept or the "stock" concept was adopted.

9. Mr Frederick FUNG expressed concern about the factors affecting the net increase in the number of households and long-term housing demand. He cited some examples of factors that the Administration should consider in projecting housing demand. These included the high divorce rate, the trend towards remaining single, the redevelopment plans of aged public rental housing ("PRH") estates and private residential flats, the average living space per person, the gender structures of domestic households, the investment demand for housing, etc.

10. ADH(SP) explained that while new households might be formed by marriages and splitting of existing households, existing households might be dissolved due to divorce, deaths and emigration. This formed the net increase in the number of households that would generate new physical housing demand. The Administration would consider a basket of factors including those aforementioned in assessing long-term housing demand.

11. The Chairman urged the Administration to examine the following aspects in the LTHS review in order to make an accurate projection of housing demand –

- (a) the lessons learnt from important issues in the past and the analysis and recommendations made in previous LTHS reviews;
- (b) the housing initiatives of the Chief Executive ("CE") (e.g. the "Hong

Kong Property for Hong Kong People" ("HKPHKP") policy); and

- (c) the changes in the population and demographic characteristics of Hong Kong (e.g. the upsurge in the number of babies born in Hong Kong whose parents were both non-permanent Hong Kong residents (such babies were commonly known as "doubly non-permanent resident ("DNR") children"))).

12. PSTH(H) responded that the LTHS Steering Committee had made reference to the methodologies and assumptions adopted in previous LTHS reviews and it would develop a new methodology in the light of current circumstances for the purpose of producing a more accurate projection of future housing demand. The LTHS Steering Committee would also take into account CE's pledges to resolve Hong Kong's housing problems. On population growth and demographic changes, the rising trend in the number of DNR children would be addressed in the LTHS review, though it was not easy for the Administration to precisely forecast when and how many DNR children would return to Hong Kong in future. It was acknowledged that an influx of DNR children would have significant implications on the overall planning of Hong Kong and different policy areas, such as housing, education, social services, medical and health services, etc.

Definition of "adequate housing"

13. Mr LEE Cheuk-yan doubted the commitment of the Administration to provide adequate housing to each and every household in Hong Kong over the long term. He opined that a clear definition of the term "adequate housing" was necessary as it would help the Administration to forecast the overall housing demand more precisely, thereby formulating effective measures to meet the housing needs of various groups in the community. He therefore requested the Administration to provide for members' information the range of factors that would be taken into account in determining "adequate housing". Mr LEE also urged the Administration to set a standard of average living space per person and adopt it as one of the indicators for determining "adequate housing".

Admin

(Post-meeting note: The Administration's response to the request was circulated to members on 29 April 2013 vide LC Paper No. CB(1)950/12-13(02).)

14. Noting that the United Kingdom had already established a definition of "decent home" back in 2006, Dr Fernando CHEUNG and Mr LEUNG Yiu-chung considered that the Administration should provide a definition of "adequate housing" as early as possible to facilitate members' discussion on housing demand. Miss Alice MAK and the Deputy Chairman also shared the

view that the provision of a definition of "adequate housing" was essential to tackle the housing problems in a purposeful manner. The Deputy Chairman added that in defining the term, the Administration could consider that the grown-up children of a household should each have his/her own room.

15. PSTH(H) acknowledged the need to define housing demand clearly before making an accurate projection. As a first step, the Administration would determine what constituted "inadequate housing" or " inadequately-housed households". Relevant factors such as average living space, building safety and place of residence would be considered in drawing up the definition. Given the prevalence of subdivided units in Hong Kong, an independent research organization had been commissioned to study the characteristics of the households living in subdivided units and estimate the number of such units in the territory. Data and statistics to be collected in the study would be relayed to the LTHS Steering Committee for further discussion.

16. Notwithstanding the complication and difficulties involved in determining what constituted "adequate housing", Mr LEUNG Yiu-chung was of the view that the Administration should set out the factors that it would take into account in defining the term. He also opined that the prevailing housing policies, such as the Well-off Tenants Policies, might probably be one of the factors influencing housing demand. PSTH(H) responded that the factors to be examined by the LTHS Steering Committee in defining the term "inadequate housing" would be included in the public consultation document to be published in around mid 2013. Given that such factors would change over time, the housing demand projection methodology to be developed would be reviewed and adjusted in response to different circumstances. While the LTHS Steering Committee was studying all aspects of housing issues, including the housing policies being implemented by the Hong Kong Housing Authority ("HA"), its recommendations and proposals would be referred to HA for consideration and the final decision on any modifications to the housing policies would be made by HA.

17. PSTH(H) further highlighted that there were different interpretations of the term "adequate housing" in the public and private sectors. For the private sector, people with different levels of affordability had different perceptions and expectations on what adequate housing should be. As for the public sector, the Administration would regard PRH as adequate housing or decent homes for eligible applicants.

18. Mr WU Chi-wai was of the view that the concept of providing adequate housing to each and every household over the long term should not only focus on the housing needs of the poorly housed households. The Administration should also take into account the housing needs of those already accommodated

in adequate housing but wished to improve their living environment in the projection of housing demand. Noting that there was a trend for people to remain single, Mr WU further pointed out that the average size and composition of households were key factors affecting housing demand. The Deputy Chairman shared the view that the Administration should be mindful of the size and age structure of domestic households when assessing the net increase in the number of households that would generate new physical housing demand. In anticipation that the Hong Kong population was on an aging trend, he also urged the Administration to take care of the housing needs of the elderly proactively.

19. ADH(SP) responded that the latest domestic household projections published by the Census and Statistics Department ("C&SD") had been adopted as the basis for assessing the physical housing needs of society. In this connection, the net increase in the number of households and the changes in household size towards smaller families had already been taken into account in the projection of housing demand. The Senior Statistician (Census & Demographic), C&SD supplemented that according to the 2011-based Domestic Household Projections, small households would become increasingly common. For example, the proportion of one-person households among all domestic households in Hong Kong was projected to increase from 17.1% in 2011 to 17.8% in 2021, and the proportion of two-person households was also expected to increase from 25.2% to 29% during the same period. In contrast, the proportion of households with four persons in the next 10 years would decline from 21.2% in 2011 to 18.3% in 2021.

20. While expressing concern about the occurrence of tragedies and fire incidents in relation to subdivided units in recent years, Dr Fernando CHEUNG enquired whether consideration would be given to introducing legislation on the definition of "adequate housing". PSTH(H) explained that the definition of "adequate housing" was not static, but would vary under different socio-economic circumstances and change over time. As such, the Administration would take into consideration a range of circumstances when defining the term "inadequate housing" so as to ensure that the definition of the term would suit the prevailing situation of society. The housing demand projection methodology to be developed should also be able to address the change of overall housing demand over a period of time having regard to different economic and social situations. Nevertheless, it would be for the LTHS Steering Committee to consider whether or not to introduce legislation on the definition of "adequate housing".

21. In response to Dr Fernando CHEUNG's further enquiry as to whether the Administration would make reference to the definition of "inadequate housing" as devised by the Community Care Fund ("CCF"), PSTH(H) explained that CCF might define the term differently and for different purposes. The Administration

considered it more appropriate to draw up a new definition of "inadequate housing" in the context of housing.

The Government's roles in housing supply

22. The Deputy Chairman opined that the Administration should clearly delineate the role of the Government in housing supply. In his view, the Administration should engage in public housing construction and provide small and medium-sized units through PRH and the Home Ownership Scheme ("HOS"), while maintaining a certain amount of land for private developers to build luxurious flats.

23. PSTH(H) advised that the Government had many different roles in the supply of housing. In addition to PRH and HOS, the Administration had implemented measures (e.g. the Special Stamp Duty) to curb speculation activities on properties. It also had a crucial role to play in ensuring a steady and sufficient land supply and building up a land reserve to meet the demand for housing and other social and economic developments in future. He expected that the role of the Government would be further examined in the context of the LTHS review.

Planning horizon of LTHS

24. Mr LEUNG Yiu-chung enquired about the planning horizon of LTHS and whether LTHS Steering Committee's recommendations would still be valid during the period. In view of the lead time for identifying suitable sites and constructing flats, the Deputy Chairman opined that a planning horizon of 30 years for LTHS might be suitable. PSTH(H) advised that the Administration was working on a planning horizon of 10 years. As building up a land reserve and expanding land resources might take a time longer than 30 or 40 years, the Administration would implement a series of measures in the coming five to 10 years to address the urgent need for housing in the community. To catch up with the latest socio-economic developments of society, the Administration would also review and update the housing strategies and demand projection methodology on a regular basis.

25. Mr LEUNG Chi-cheung agreed that the LTHS review should be conducted regularly and the frequency of review should be no less than once every 10 years in order to be in step with the different housing policies formulated by different CEs.

Ratio between private and public housing

26. Referring to the projection of private housing demand for the next 10

years made by the Hong Kong Ideas Centre in October 2012 as stated in the Information Note, Mr LEUNG Chi-cheung enquired whether the Administration would set a ratio of private residential flats to public housing units in future.

27. PSTH(H) responded that the ratio of private and public housing was one of the issues to be examined by the LTHS Steering Committee. He reiterated that housing demand varied under different socio-economic circumstances. Although the housing demand projection methodology to be devised would try to take into account the key components such as population fluctuations, there were many other unforeseeable factors at play. The housing demand projection methodology should therefore be flexible enough to respond to social and economic changes at different times. Given the above, the Administration considered it not desirable to have a fixed ratio between the supply of public and private flats. Otherwise, there might be situations where the Government dominated the supply of housing. As the Application List system had been abolished, the Administration would put up for sale suitable residential sites in the Land Sale Programme to ensure a continuous supply of residential flats in the private market. The LTHS Steering Committee would also examine the future supply of land and residential flats in the private sector. As regards the shortage of housing supply over the past few years, PSTH(H) said that this might be due to the economic downturn and the suspension of HOS. Nevertheless, the Administration considered it opportune to conduct the LTHS review at this stage with an aim to achieve a balance in the supply and demand for housing.

28. In response to Dr Fernando CHEUNG's enquiry about the ratio between private residential flats and public housing units in the Hong Kong 2030 Study which forecasted that the housing demand during 2003-2030 would range from 27 900 flats to 41 800 flats per annum, PSTH(H) explained that the LTHS Steering Committee would make housing demand projection when defining the term "inadequate housing" and all key parameters had been identified for inclusion in the projection. The Administration did not have any projected figure at this stage.

Inadequacies in the existing housing policies

29. Mr Christopher CHUNG said that the quantity and quality of public housing were equally important and he was concerned about the congested living environment of PRH tenants. Noting that some new PRH tenants, who might be new arrivals who had resided in Hong Kong for less than seven years, enjoyed relatively more living space than some sitting tenants, Mr CHUNG criticized that such discrepancy in living space would give rise to social disharmony. He also cited some examples of unfair arrangements in PRH allocation, including the housing arrangements for divorced couples living in

PRH, the Well-off Tenants Policies, etc. Mr CHUNG urged the Administration to take into account the inadequacies in the prevailing PRH policies in the LTHS review.

30. PSTH(H) stressed that the existing PRH policies were pragmatic and realistic, taking individual circumstances of eligible applicants and sitting tenants into consideration. For example, HA had put in place two transfer schemes for sitting PRH tenants categorized as overcrowded households or who wanted to have larger living space to apply for transfer to larger units. On the living environment of PRH tenants, PSTH(H) advised that some families in the older PRH estates enjoyed far more living space on average than that was allowed under the established allocation standards due to subsequent moving out of some family members.

31. Mr LEUNG Kwok-hung commented that the Administration was incapable of resolving the housing problems not only in the long term but also the short or medium term. He anticipated that the number of residential units to be built on the two sites selected for the HKPHKP policy would be far from adequate in meeting the pressing housing needs of the community. Mr LEUNG therefore strongly urged the Administration to introduce measures with instant results in the short run. For example, the Administration should reinstate rent control on residential properties to address the plight of low-income families. It should also build a progressive housing ladder to facilitate the upward mobility of different strata in the community.

Measures to ensure the healthy and stable development of the property market

32. Referring to Table 1 of the Information Note which showed the private residential property transaction figures over the past decade, Ir Dr LO Wai-kwok expressed concern about the soaring property prices in Hong Kong which were beyond the affordability of young people. He enquired about the measures that the Administration planned to introduce to ensure the healthy and stable development of the property market.

33. PSTH(H) responded that the Administration had introduced various measures to ensure the healthy and stable development of the property market, including increasing land supply to tackle the problem at source and combating speculative activities. The Administration had also been releasing land with conditions, such as the HKPHKP policy which accorded priority to local residents in developing residential units. Whilst property prices would be determined by market forces, the Administration would continue to provide public housing to low-income families who could not afford private residential flats. The Chairman drew members' attention to Table 3 of the Information Note which indicated that the home purchase affordability ratio had deteriorated from

a low of 21.1% in 2003 to 52.3% in 2012. He expressed regret at the surge in property prices which had risen to a level beyond the affordability of the general community.

Lack of information in the Administration's paper

34. Dr KWOK Ka-ki commented that the Administration's paper did not provide any direction or strategy for resolving the existing housing problems. He was of the view that the many different housing problems that Hong Kong was facing had stemmed from the changes in the profiles of domestic households, such as the rising trend towards remaining single, the increase in divorce rate, the aspirations to have more living space per person, etc. He enquired how the Administration would address people's aspirations for more spacious living environment and an enhanced role of HOS in assisting people who could not afford private property in acquiring their own flats. He also requested the Administration to provide members with preliminary projection on the average living space to be allocated to each PRH tenant in future.

35. PSTH(H) clarified that the purpose of the Administration's paper was not suggesting any solutions to the existing housing problems. Instead, it set out the key issues that the LTHS Steering Committee would take into account in the projection of long-term housing demand. While acknowledging the need to consider the implications of the growth of singleton households, the aging population and the high divorce rate, PSTH(H) advised that the Administration had been increasing the size of PRH units and would review the minimum space allocation standard for PRH regularly. However, it did not have any projection on the average living space to be allocated to each PRH tenant in future as the issue would be studied in the context of the LTHS review. As for the private sector, the quality of living environment depended on the levels of affordability of home purchasers. He reiterated that practical measures such as combating speculative activities in the property market and releasing land with conditions were being implemented. The Administration was also firmly committed to constructing HOS.

36. Mr Frederick FUNG echoed that the Administration's paper was not informative and did not contain any statistical information, such as demographic changes and household characteristics, to facilitate members to have an in-depth discussion on housing demand. He criticized the Administration for not making reference to the housing policies of overseas countries like the United Kingdom and Singapore and the previous LTHS reviews. Mr James TO and Dr Fernando CHEUNG also shared the view that the information provided in the Administration's paper was inadequate.

37. PSTH(H) advised that the information contained in the Administration's paper had been presented to the LTHS Steering Committee to seek its agreement to the parameters to be used to project the demand for housing over time. As such, the Administration's paper was not intended to outline the various housing problems and provide solutions. Rather, it aimed to consult members on whether all of the right issues had been included in the assessment of housing demand. The LTHS Steering Committee would make recommendations on different housing issues and draw up a definition of "inadequate housing".

38. Mr Abraham SHEK enquired whether members could be provided with the same set of information that the Administration had prepared for reference of the LTHS Steering Committee so that they could have a better understanding of the consultation document to be issued by the LTHS Steering Committee. PSTH(H) explained that the Administration had been providing documents with the same content to members of the Subcommittee and the LTHS Steering Committee.

Inclusion of investment demand in the housing demand model

39. Mr Frederick FUNG was of the view that the Administration should take investment demand into account when assessing the overall housing demand since investment demand might affect the demand-supply balance in the housing market and further increase the property prices. PSTH(H) explained that some flats purchased by investors would eventually be channelled back to the sales or rental market. If investment demand was included in the projection, the housing demand would be inflated. The Administration therefore considered that investment demand should not be taken into account in projecting the overall housing demand.

40. Mr James TO pointed out that some private units were not re-sold or let in the property market but were left vacant for years after being purchased. Hence, he disagreed to the complete exclusion of investment demand in the projection of long-term housing demand. The Principal Economist (2), Financial Secretary's Office, advised that appropriate adjustments would be made to the projection of housing demand if a particular category of investors were found to have exceptionally high tendency of hoarding flats. The adjustment would be included as one of the items under the contingency factors in the housing demand model.

41. In concluding, the Chairman requested the Administration to provide a paper to brief members on the approach and framework that the Administration would adopt for projecting long-term housing demand, having regard to

members' views expressed at the meeting and the views of the LTHS Steering Committee.

(Post-meeting note: The Administration's response to the request was circulated to members on 29 April 2013 vide LC Paper No. CB(1)950/12-13(02).)

III. Any other business

42. There being no other business, the meeting ended at 10:45 am.

Council Business Division 1
Legislative Council Secretariat
26 September 2013