

Legislative Council Panel on Housing

Interim Scheme to Extend the Home Ownership Scheme Secondary Market to White Form Buyers – Initial Assessment

PURPOSE

This paper briefs Members of the initial assessment of the Hong Kong Housing Authority (HA) on the Interim Scheme to Extend the Home Ownership Scheme Secondary Market to White Form Buyers (the Interim Scheme).

BACKGROUND

2. Flats under the Home Ownership Scheme (HOS) and the Tenant Purchase Scheme (TPS) of the HA, as well as flats under the Flat-for-Sale Scheme (FFSS) of the Hong Kong Housing Society (HKHS) are subsidised sale flats. Premium has to be paid in order to sell these flats in the open market. Alternatively, these flats may be sold to households with Green Form status¹ (GF buyers) without payment of premium in the HOS Secondary Market. As at end September 2014, there are a total of about 380 000 subsidised sale flats with premium not yet paid that can be sold in the HOS Secondary Market².

3. To address the home ownership aspirations of White Form (WF) applicants³, the Chief Executive (CE) pledged in his election manifesto (and announced again in the Legislative Council (LegCo) on 16 July 2012) that before newly built HOS flats are released onto the market, an interim scheme will be in place to allow 5 000 WF applicants annually to purchase flats without premium paid in the HOS Secondary Market. The effectiveness and the quota will be reviewed after a period of time.

¹ Those eligible for Green Form status include sitting Public Rental Housing (PRH) tenants and PRH applicants who have passed the detailed eligibility vetting and are due for allocation of PRH in about a year's time.

² Including about 252 000 HOS flats, about 120 000 TPS flats and about 9 000 FFSS flats.

³ White Form applicants have to satisfy certain eligibility criteria set by the HA, including residence rule, and the income and asset limits.

Implementation of the Interim Scheme

4. In September 2012, after discussion, the Subsidised Housing Committee (SHC) of the HA considered and endorsed the Interim Scheme with an annual quota of 5 000 to be released in two batches⁴. In November 2012, the SHC endorsed that the income and asset limits for the Interim Scheme should be \$40,000 and \$830,000 respectively for WF family applicants; and \$20,000 and \$415,000 respectively for one-person applicants. The HA received around 66 000 applications during the application period from 4 to 18 January 2013; conducted initial screening⁵ on these applications before an open ballot was held on 18 February 2013 to determine the priority for quota allocation; and then conducted detailed vetting⁶ in accordance with the priority. Thereafter, the HA issued the first batch of 2 500 Approval Letters to successful applicants on 31 May 2013, and another 2 500 on 31 December 2013. The HA did this in two batches to enable the market to absorb the increase in potential buyers in a gradual and managed manner.

5. In the HOS Secondary Market, the seller requires a Certificate of Availability for Sale and the buyer needs a Certificate of Eligibility to Purchase (CEP) for them to enter into a provisional agreement for sale and purchase. The buyer's solicitor will apply to the HA for a Letter of Nomination (LN) to enter into an agreement for sale and purchase⁷.

6. Under the Interim Scheme, WF buyers apply for CEPs from the HA if they want to buy HOS/TPS flats, and from the HKHS if they want to buy FFSS flats in the HOS Secondary Market. They have to submit their CEP applications within six weeks upon issue of the Approval Letters and payment of relevant fees. A CEP is valid for six months from the date of issue. WF

⁴ Taking into account the application process and that the quota were released in two batches, the entire application cycle would cover a period of about 15 to 16 months.

⁵ Initial paper screening of the 66 000 applications was conducted primarily to check that the income and assets as declared by the applicants met the criteria; that the applicants had lived in Hong Kong for seven years; and that the cheques for the non-refundable application fee were correctly addressed.

⁶ Although the quota for the Interim Scheme was 5 000, the HA had conducted detailed vetting of about 7 000 applications since past experience indicated that there would bound to be applications which were found not eligible during the detailed vetting stage.

⁷ HOS flats are subject to paragraph 4 of Schedule 1 to the Housing Ordinance (Cap 283), which provides that "Notwithstanding that the purchaser has not paid the premium ..., he may, ... (c) where 2 years has elapsed since the date of the first assignment of the land ... enter into any provisional agreement for sale and purchase, agreement for sale and purchase, or assignment, provided that – (A) the person entering into the provisional agreement for sale and purchase as the purchaser is certified by the [Housing] Authority as a person eligible to buy relevant land; (B) the person entering into the agreement for sale and purchase, and the assignment, as the purchaser is a person nominated for the purposes of this subparagraph by the [Housing] Authority to buy particular relevant land; and ..."

buyers may apply for a one-off extension of the CEP for six months, subject to another vetting to ensure they remain eligible and payment of the relevant fees. Solicitors representing WF buyers are required to handle the applications for LNs from the HA.

7. Of the 5 000 Approval Letters issued, 3 983 holders of Approval Letters applied for CEPs from the HA and/or the HKHS. As at end September 2014, 2 165 LNs were issued, of which 2 161 transactions were eventually completed; and about 750 applicants were still holding valid CEPs. The validity of all CEPs, including those with validity period extended, will expire by March 2015. As a CEP holder can apply for an LN within one month of the signing of the provisional agreement for sale and purchase, the final total number of successful transactions under the Interim Scheme will only be known in April 2015.

8. The Interim Scheme is not without controversy before it was launched. Some media commentaries took the view then that the prices of subsidised sale flats in the HOS Secondary Market, and even the prices of flats in the open market, might have been markedly affected by the Interim Scheme. The LegCo Panel on Housing passed a motion in November 2012, urging the Government to call off the scheme. In response, the Government undertook to review the Interim Scheme and revert to the Panel on the review.

9. With the anticipated completion of the first round of the Interim Scheme by April 2015, the SHC conducted an initial assessment of the scheme on 24 November 2014. Details are set out in the ensuing paragraphs.

THE INITIAL ASSESSMENT

Impact of the Interim Scheme

Number of WF buyers benefited from the Interim Scheme

10. As the first batch of newly built HOS flats will not be completed until 2016/17, the Interim Scheme has provided WF buyers an additional channel, previously not available to them, to purchase subsidised sale flats in the interim period. As at end September 2014, 2 161 households with WF status had achieved home ownership via the Interim Scheme. Although some critics highlight the about 50% drop out rate thus far (as compared to the 5 000 quota), the fact remains that the Interim Scheme has enabled 2 161 households to purchase housing for their own use. The fact that the quota issued has not been fully utilised reflects the supply and demand situation in the HOS Secondary Market. It also suggests that despite WF buyers' enthusiastic response during the application period, they remained cautious in making purchasing decisions after they were allocated with the quota.

Impact on GF buyers

11. From 2003 to 2012, annual transactions in the HOS Secondary Market ranged from 1 710 to 2 840, with an average of about 2 100 transactions per annum. After the introduction of the Interim Scheme, the average annual number of transactions (annualised figures from June 2013 to September 2014) increased to about 2 810, comprising about 1 620 transactions made by WF buyers and about 1 190 transactions by GF buyers. The decrease in the number of purchases made by GF buyers may be due to the general price increase in the property market during the period and also competition from the WF buyers.

Number of new households benefited from the HOS Secondary Market

12. However, if we count both WF and GF buyers, the total number of households benefited from the HOS Secondary Market after the launch of the Interim Scheme is larger than that before, as shown below –

**Number of new households benefiting from
the HOS Secondary Market**

	(a) Annual average numbers before the Interim Scheme (2003 to 2012)	(b) Actual numbers after the issue of Approval Letters under the Interim Scheme (June 2013 to September 2014)	(c) Annualised numbers from column (b)
WF buyers directly benefiting from the Interim Scheme	0	2 161	1 621
GF buyers purchasing subsidised sale flats; PRH flats released as a result	2 100	1 590	1 193
Total	2 100	3 751	2 814

Impact on price

13. By adding new buyers to the HOS Secondary Market, the Interim Scheme could theoretically put upward pressure on flat prices in this market segment. Transactions data from August 2012 (i.e. after the announcement of the Interim Scheme) to June 2014 indicated that flat prices in the HOS Secondary Market rose cumulatively by 35%, compared to the cumulative

increase of 22% in prices of small and medium-sized flats⁸ in the private market in general. However, these figures should be interpreted with care. Property transactions prices during any period are subject to the influence of an array of factors including macroeconomic environment, demand-supply balance, interest rate outlook and other Government policies. It is, therefore, difficult to tell precisely how much of the faster price increase in the HOS Secondary Market noted above was attributable to the Interim Scheme. Our overall observation is that flat prices in the HOS Secondary Market rose relatively fast initially after the announcement of the Interim Scheme. This may be due to the fact that some HOS flat owners raised their asking prices in light of the new purchasing power in the market. However, flat prices have stabilised afterwards and generally followed the overall trend of flat prices in the private property market.

Way Forward

14. Based on the above analysis, the SHC considered that the Interim Scheme has achieved its objective of helping lower- to middle-income households to achieve home ownership. As mentioned earlier, as at end September 2014, about 2 200 WF applicants have achieved home ownership through the scheme, without which these persons might have found it difficult to purchase flats in the private property market. To the same extent, the Interim Scheme has met the need of the sellers, and improved the circulation of the HOS Secondary Market.

15. While the Interim Scheme is effective to a certain extent, with the experience of only one round of the Interim Scheme, the SHC considered that more empirical information is required to review the full and exact impact of the Interim Scheme on property prices to enable it to decide on the future of the scheme. Given the strong demand for subsidised sale flats nowadays (especially from persons eligible for WF status), the SHC considered it more prudent to release one more round of 2 500 quota in the second half of 2015. This can respond to WF applicants' home ownership aspirations on one hand, and reduce the quota to a relatively conservative number on the other. A comprehensive review will be conducted thereafter to decide on the future of the Interim Scheme.

16. Upon completion of the comprehensive review, the Government will report the outcome of the review to the LegCo Panel on Housing.

⁸ Small and medium-sized flats refer to flats with a saleable area of less than 100 m².

Streamlining of the Interim Scheme's Operation

17. In addition to launching one more round of the Interim Scheme, the SHC also endorsed some changes to the Interim Scheme to streamline procedures, details of which are set out at **Annex**.

Transport and Housing Bureau
December 2014

Measures to streamline the processing procedure

Better utilisation of the quota

In the first round of the Interim Scheme, the number of Approval Letters issued equaled the quota set, i.e. 5 000. However, some successful applicants did not proceed further. To fully utilise the quota, in future, if successful applicants do not collect CEPs within the prescribed period of six weeks, one more round of Approval Letters will be issued to top up the unused quota according to the priority of applicants.

Validity of the CEP

2. A CEP is valid for six months and successful applicants may apply for a one-off renewal for another six months. About 38% of the WF applicants applied for extension of the CEP, which suggests a considerable demand for a longer validity period. Besides, apart from a few exceptions, most CEP renewal applications were approved. The HA will lengthen the validity period of CEP from six months to 12 months. The HA will similarly lengthen the validity of CEP to GF buyers.

Simplifying the administrative procedure

3. The HA will simplify some administrative procedures. For example, under the Interim Scheme, successful applicants have to apply for an Approval Letter and then a CEP with payment of fees within six weeks of the issue of the Approval Letter. To simplify procedures, successful applicants issued with the Approval Letter will no longer need to apply for the CEP; they need only collect CEPs upon payment of fees.

4. The steps that successful applicants and the HA have to go through to ascertain eligibility will also be simplified. Specifically, the HA will conduct detailed vetting of eligibility only once i.e. before the issue of the Approval Letters. The checking on income and asset limits previously conducted at the LN stage will be omitted, but the HA will still conduct duplication check to ensure that the applicants have no double housing benefits, and will also check the records of the Land Registry to ascertain that no charge has been registered against the property to be purchased⁹. The HA will adopt similar arrangements for GF buyers.

⁹ In accordance with the established mechanism, the HA will still select 2% of the completed cases (i.e. transactions registered in the Land Registry) for random detailed checking in respect of the applicants' income, assets and property ownership. If irregularities are detected, the cases will be referred to the Prosecutions Section for follow-up action. Hence, there should be sufficient safeguard against abuse.