

Long Term Housing Strategy Annual Progress Report 2015

Purpose

This paper sets out the up-to-date implementation of key aspects of the Long Term Housing Strategy (LTHS) as at December 2015.

Background

2. The Government formulated LTHS after deliberation of the LTHS Steering Committee and a three-month public consultation. LTHS was announced on 16 December 2014, which establishes three major strategic directions in order to gradually avert the current supply-demand imbalance –

- (a) to build more public rental housing (PRH) units and to ensure the rational use of existing resources;
- (b) to provide more subsidised sale flats, expand the forms of subsidised home ownership and facilitate market circulation of existing stock; and
- (c) to stabilise the residential property market through steady land supply and appropriate demand-side management measures, and to promote good sales and tenancy practices for private residential properties.

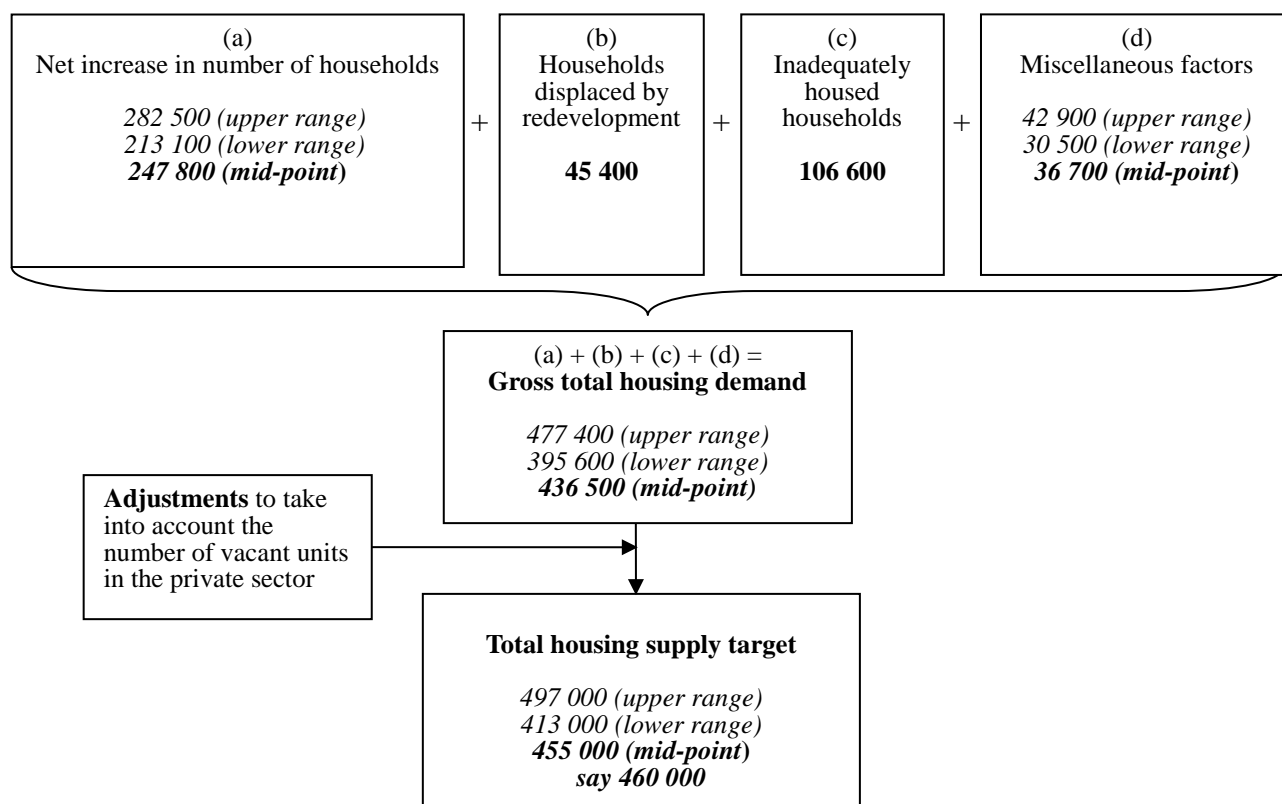
3. As set out in LTHS, the Government updates the long term housing demand projection annually and presents a **rolling ten-year housing supply target** in order to capture social, economic and market changes over time and to make timely adjustment where necessary. This annual exercise serves as an important policy tool to enable the Government to continually plan ahead in order to meet the housing need of the community over the long term.

Annual Update of the Long Term Housing Demand Projection and the Ten-year Supply Target

Latest Projection

4. Based on the latest projection, the long term housing demand for the ten-year period from 2016-17 to 2025-26 ranges from 395 600 to 477 400 units, with the mid-point being 436 500 units. Adding to that a margin for vacancy of private flats¹, the ten-year total housing supply target should range from 413 000 to 497 000 units, with the mid-point being 455 000 units, rounding off to **460 000 units** as the **total housing supply target for the ten-year period from 2016-17 to 2025-26**. The projection results are set out in detail at **Annex A**, and summarised in the following diagram –

 A



¹ Based on about 43 260 vacant units as at end-2014, and the average vacancy rate of about 4.7% from 2005 to 2014.

5. The decrease in the latest supply target for 2016-17 to 2025-26 as compared to that announced last year for 2015-16 to 2024-25 is mainly because, according to the updated domestic household projection published by the Census and Statistics Department (C&SD) in September 2015, the net increase in the number of households is less than previously projected. Despite changes in the latest rolling ten-year housing supply target, Hong Kong is still facing supply-demand imbalance in housing, with keen demand from the community for public housing, and property prices and rentals remaining at a high level. In view of this, the Government cannot afford to wind down the large-scale programme for identifying land for housing production, and will continue to spare no efforts in identifying land to meet the long term housing need of the community.

Split between Public and Private Housing

6. To underline the Government's commitment in increasing public housing supply while ensuring the stable and healthy development of the private market, we will **continue to maintain the public / private split of 60:40** for the ten-year period from 2016-17 to 2025-26, i.e. the public housing supply target will be 280 000 units and the private housing supply target will be 180 000 units. In view of the increasing number of PRH applicants, the Government considers it necessary to continue our efforts in increasing and expediting the supply of PRH units. Therefore, of the 280 000 public housing units, we will **maintain the target of providing 200 000 PRH units**. Accordingly, the target for subsidised sale flats for 2016-17 to 2025-26 will be 80 000 units.

Looking Ahead

7. The projection model for deriving the rolling ten-year total housing supply target involves many variables. The Population By-census to be conducted in 2016 will provide comprehensive data to allow another review on the domestic household projection, and also updating of other variables derived from the last Population Census.

8. Meanwhile, socio-economic trends may lead to potential impact on housing demand. In addition, we will continue to keep a close watch

on new developments that may call for more housing supply. This may include, for example, new initiatives to attract talents outside Hong Kong, such as the implementation of a pilot scheme to attract the second generation of Chinese Hong Kong permanent residents who have emigrated overseas to return to Hong Kong. If the impact of such new developments becomes more prominent, we will examine how to introduce new components into the projection model to explicitly account for their impact.

Housing Land Supply and Flat Production

Latest Position

9. Based on the latest information, the total public housing production of the Hong Kong Housing Authority (HA) and Hong Kong Housing Society (HKHS) in the five-year period from 2015-16 to 2019-20 is about **97 100 units**, comprising 76 700 PRH units and 20 400 subsidised sale flats. Compared with the housing production figures of the previous three five-year periods, namely the five-year period counting from 2012-13, 2013-14 and 2014-15, the estimates for total public housing production, PRH production and subsidised sale flats production are all higher than the respective estimates –

	HA housing production (PRH + subsidised sale flats)	HKHS housing production (PRH + subsidised sale flats)	Total housing production (PRH + subsidised sale flats)
2012-13 to 2016-17	74 600 (71 600+3 000)	1 100 (100+1 000)	75 800 (71 800+4 000)
2013-14 to 2017-18	73 300 (70 100+3 300)	1 100 (100+1 000)	74 500 (70 200+4 300)
2014-15 to 2018-19	87 800 (76 300+11 500)	2 400 (100+2 300)	90 300 (76 400+13 800)
2015-16 to 2019-20	93 300 (75 600+17 800)	3 700 (1 100+2 600)	97 100 (76 700+20 400)

Note: Figures may not add up to total due to rounding.

10. As of now, in terms of land supply, **assuming that all sites identified can be delivered on time for housing construction, the Government has identified land for the construction of about 255 000 public housing units for the ten-year period from 2016-17 to 2025-26.** As for private housing, the supply target of 180 000 units for the ten-year period from 2016-17 to 2025-26 will continue to be met through various private housing land supply sources including government land sale, railway property development projects, projects of the Urban Renewal Authority (URA) and private development / redevelopment projects. Based on the latest projection as at end-September 2015, **the projected supply of first-hand private residential property market for the coming three to four years is about 86 000 units.**

Measures to Increase Housing Land Supply

Short to Medium Term

11. Delivering the ten-year housing supply target is undeniably a huge challenge for both the Government and the community. There is no easy or painless option to increase or to expedite land supply in the short run. The most immediate and effective way to augment housing land supply in the short to medium term is to make more optimal use of the developed areas in the existing urban areas and new towns, as well as nearby land in the vicinity of existing infrastructures, through land use reviews and increasing development intensity where planning terms permit. These are already being pursued in full steam by the Government under its multi-pronged approach to increase land supply.

Land Use Reviews

12. The Planning Department has conducted reviews on government land currently vacant, under Short Term Tenancies or different short-term, Government, Institution or Community and other government uses, as well as Green Belt (GB) sites. With the said efforts, we have identified in total **some 150** potential housing sites, most of which we aim to make available for housing development in the five years of 2014-15 to 2018-19 for providing over 210 000 flats, with over 70% of them for

public housing, subject to timely amendments to their respective statutory plans for change of land use and / or increase in development intensity.

13. Among the said some 150 potential housing sites, there are about 70 GB sites with a total area of over 150 hectares (only about 1% of the total area of land zoned GB over the whole territory) which are considered appropriate to be rezoned for residential use, capable of providing over 80 000 public and private housing units (with over 70% for public housing). Albeit vegetated, these GB sites have relatively low conservation value and buffering effect. As these sites are close to supporting infrastructural facilities, including transport, water supply, sewerage, etc., they are considered suitable for urban expansion and have good potential to be rezoned for housing purpose.

14. Among these some 150 potential housing sites, as at end-November 2015, 38 sites have completed the statutory rezoning procedures and been made available for housing development estimated to provide a total of about 36 800 housing units. Another 24 sites have their statutory rezoning procedures initiated; and if completed (excluding three sites that were reverted to the original zonings or the proposed rezoning of which was not agreed by the Town Planning Board (TPB)) are estimated to provide a total of about 36 100 housing units. Among these 72 900 units which have their rezoning procedures initiated / completed, some 42 400 are public housing units and 30 500 are private housing units.

15. Apart from these some 150 sites, for the various initiatives to increase land supply announced in the 2013 Policy Address, a total of 42 sites were zoned / undergoing the rezoning procedures for residential use in the short to medium term as of end-November 2015. These sites are expected to provide about 39 000 units in total, of which 23 000 are public housing units and 16 000 are private housing units, and 38 sites have already been allocated for residential developments.

Increasing Development Intensity where Planning Terms Permit

16. The Government announced in the 2014 Policy Address that except for the more densely populated parts of Hong Kong Island and

Kowloon Peninsula, the maximum domestic plot ratio that can be allowed for housing sites located in other Density Zones of the Main Urban Areas and New Towns would be raised generally by about 20% as appropriate. It should be noted that the increase in development intensity of individual housing sites is not automatic, and will continue to be subject to necessary approval by TPB under the statutory planning mechanism where applicable. The increase in the maximum domestic plot ratio of a site will continue to be subject to relevant planning principles and considerations, and will be pursued only when there is scope in terms of development capacity, and the various constraints and impacts so arising, if any, could be addressed or mitigated through appropriate measures.

17. Since the inauguration of the current-term Government, TPB has, up to mid-November 2015, approved applications to relax the development intensity of 41 housing sites, leading to an additional supply of about 7 750 units. Moreover, to tie in with the transformation of Kowloon East, the Government is further reviewing the development intensity of Kai Tak Development Area, which is anticipated to provide no fewer than 6 800 additional units. In this regard, the Government has submitted the first batch of planning applications for increase in development intensity with supporting technical assessments, and the applications have been approved by TPB, which are estimated to provide about 4 800 additional units.

Medium to Long Term

18. Medium to long term land supply projects including the Kwu Tung North, Fanling North and Hung Shui Kiu New Development Areas (NDAs); the Tung Chung New Town Extension; and Yuen Long South development are expected to provide land for residential developments in phases in the latter part of the ten-year period from 2016-17 to 2025-26. For example, Kwu Tung North and Fanling North NDAs will provide about 60 000 new flats in total (60% are public housing). After the funding approval by the Finance Committee of Legislative Council in June 2014, the detailed design and site investigation of site formation and engineering infrastructure works for the advance and first stage works of these two NDAs have already commenced since end-2014. Subject to further funding approval, major works are expected to commence in 2018

the earliest, with the first population intake targeted in 2023.

19. The Tung Chung New Town Extension will provide about 49 400 new flats with the first population intake expected in 2023. The planning and engineering study is close to completion and the Government will initiate the statutory planning process and other preparatory work shortly. Hung Shui Kiu NDA will provide about 60 100 housing units with the first population intake expected in 2024. The Stage 3 Community Engagement was completed in September 2015 and the Government is finalising the planning scheme and formulating the implementation programme. Yuen Long South development will provide about 26 100 new flats with the first population intake expected in 2025. The planning and engineering study is still on-going and the Stage 3 Community Engagement is expected to start in the first half of 2016.

20. In the longer term, reclamations at suitable locations outside Victoria Harbour are being explored to increase the availability of developable land. The Government is also planning for the development of Lantau (including the “East Lantau Metropolis”, Sunny Bay and Siu Ho Wan reclamations, and the Hong Kong boundary crossing facilities island of the Hong Kong-Zhuhai-Macao Bridge), and undertaking a preliminary study for developing the New Territories North. Furthermore, exploration of cavern and underground space developments is underway to increase the land and space for meeting the various needs of Hong Kong. These long term land supply projects will be our foci in meeting future population growth, providing land resources for economic developments, and improving people’s living space and environment.

21. Hong Kong is facing a number of changing circumstances and challenges including the evolving global and regional dynamics, a growing but ageing population, pressing land demand for housing, economic activities and community facilities, as well as an increasing aspiration for more living space and better quality of life. Land developments take long lead time from planning to realisation, and it is necessary to plan well ahead to meet future needs while allowing sufficient flexibility and contingency to cater for uncertainties. Against this backdrop, the Government is carrying out an updating exercise of the

territorial development strategy², namely the “Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030”, with a view to creating capacity for sustainable growth, planning for a livable high-density city and embracing new economic opportunities.

Other Initiatives to Increase Housing Land Supply and Expedite Land Development

22. To increase housing land supply and expedite land development, the Government endeavours to streamline the various processes involved in our planning, land administration and building regimes. The Government also seeks to enhance manpower supply of the construction industry in collaboration with the Construction Industry Council.

 B

Details of the latest initiatives are set out at **Annex B**.

The Challenges

23. In terms of housing land supply, rezoning the some 150 potential housing sites and increasing development intensity where planning terms permit are the key contributors towards achieving the ten-year housing supply target. The Government will continue full steam ahead with the relevant statutory plan amendments so as to increase and expedite short to medium term housing land supply.

24. In terms of public housing, based on the latest estimate as set out in paragraph 10 above, we have yet to secure all the sites needed to meet the relevant supply target. Apart from site availability, there is also a lead time before the completion of flats on the sites identified. HA is working hard to shorten the lead time by fast-tracking the housing development process where possible, with a view to raising production, particularly in the latter years of the ten-year period. However, there are considerable challenges that affect the lead time for early completion of public housing projects, including –

² The last review on territorial development strategy entitled “Hong Kong 2030: Planning Vision and Strategy” was completed and promulgated in 2007. It provided a spatial planning framework for the future development of Hong Kong, and set out the broad directions adopted by the Government for land supply and town planning for a time horizon up to 2030.

- (a) **majority of the sites are not “spade-ready”** (i.e. sites that have not been properly zoned, require resumption, clearance, re-provisioning of existing facilities, site formation or provision of additional infrastructure). About 80% of those sites which HA has consulted District Councils (DCs) in the past five years are not “spade-ready”, such as Tuen Mun Area 54 Site 4A (South);
- (b) **many sites require rezoning and planning applications, and it takes considerable time to complete the relevant procedures.** In general, it takes at least a year (subject to complexity of sites) for feasibility studies before rezoning, and about 11 months for statutory rezoning procedures. Among the about 80 projects which HA has consulted DCs in the past five years, about 90% involve rezoning or planning applications. Some of them may take longer time since feasibility studies and / or technical assessments may be required to substantiate the applications and / or address the concerns of local communities and stakeholders, hence resulting in longer lead time required before HA can start construction, such as Kam Sheung Road Site 1;
- (c) **for cases involving Government-funded works** (such as public transport interchange, community hall, road improvement works, etc.), the time required to secure funding depends on the process for securing the Legislative Council’s funding approval. For instance, in seeking funding approval for the re-provisioning works of the community hall associated with the Pak Tin Estate Redevelopment, although the relevant funding application was eventually approved after nine months, the progress of part of the development project was affected;
- (d) **sites involving difficult or complex conditions** require longer time for foundation works, while some others involving refuge floors, basement and / or podium construction require longer time for construction. Examples of these cases include Tung Chung Area 39, Shek Mun Estate Phase 2, Sha Tin Area 52 Phase 2 and Northwest Kowloon Reclamation Site 6;
- (e) **legal issues** involving other developments in the vicinity may

jeopardise HA's timely acquisition of land. For example, the judicial reviews (JRs) on the Kwai Chung Outline Zoning Plan (OZP) involving another development have forced HA to abort the tender for the foundation works contract for Tai Wo Hau Road Phases 1 and 2 (800 units)³, and the entire production programme had to be held in abeyance; and

- (f) **local communities may express strong views over the development.** For instance, an earlier petition staged at the site entrance at Pak Tin Phases 7 and 8 (due for completion in 2019-20) caused delay to the works progress.

25. In addition, during the course of DC consultation on public housing projects, HA needs to address local concerns such as the provision of community and public transport facilities and measures to mitigate environmental and traffic impacts, etc. To expedite project delivery, HA will explore feasible solutions with relevant bureaux and departments as far as possible in order to address the local community's concerns and to secure their support. Where possible and resources permit, HA will address the community's requests for public facilities. These tasks may call for additional work and time but HA will proceed with planning applications and make corresponding amendments to scheme design in parallel in order to minimise the impact on the workflow of the public housing construction programme.

26. Despite these challenges, HA has been successful in some cases in pushing projects forward. Notable examples of "spade-ready" sites that HA has managed to fast-track include six newly-built Home Ownership Scheme (HOS) projects. Also, HA has fast-tracked other sites on government land even though they required rezoning, such as Queen's Hill Site 1 Phases 1 to 3 which are due for completion beyond 2019-20. However, such fast-tracking efforts are subject to risks and uncertainties (for example, local objections or JRs mentioned above),

³ Although the JRs are not related to the Tai Wo Hau Road site, the court has granted an interim stay of submission of the OZP for the Executive Council's approval, pending the determination of the JRs. In view of the deferral of approval of the OZP, the Tender Committee of HA had no choice but to cancel in May 2015 the foundation tender which was issued in March 2015.

thus posing delays during the course of delivery despite the best endeavour towards early completion.

27. As we have reiterated time and again, providing sufficient land to achieve the housing supply target remains a huge challenge for both the Government and the community. There is simply no magic solution that can increase land supply without causing any impact on the local community. Therefore, an integral part of the land supply process is the support and understanding rendered by DCs, local communities, residents and relevant stakeholders. **The community as a whole has to accept trade-offs** in order to cope with the pressing housing needs of Hong Kong people, especially the pressing needs of those waiting to move into PRH or to improve their existing living environment.

Subsidised Home Ownership

Expediting Supply of Subsidised Sale Flats

28. The first batch of 2 160 new HOS flats scheduled for completion in 2016-17 were put up for pre-sale in end-December 2014. HA received some 135 000 applications, including some 11 500 Green Form (GF) and some 123 500 White Form (WF) applications. All the 2 160 HOS flats were sold by August 2015. HA will put up about 2 700 new HOS flats for pre-sale in end-February 2016 and another 2 000 new HOS flats for pre-sale in 2016-17. HKHS will also offer around 1 000 and 600 subsidised sale flats for pre-sale in end-February 2016 and 2016-17 respectively.

Expanding Forms of Subsidised Home Ownership

29. As foreshadowed in LTHS, the Government will consider how to expand the forms of subsidised home ownership and, where appropriate, introduce supplementary schemes. In his 2015 Policy Address, the Chief Executive proposed to HA that suitable flats among its PRH developments under construction be identified for sale to GF applicants in the form of a pilot scheme, with prices set at a level lower than those of HOS flats.

30. In May 2015, HA decided to implement the “Green Form Subsidised Home Ownership Pilot Scheme” (GSH), and decided on its implementation details including eligibility criteria, price setting mechanism, resale arrangements and principles for site selection, etc. Based on the endorsed site selection principles, HA agreed to convert a PRH development at San Po Kong to GSH. The project will provide a total of about 860 flats. It is expected that the flats will be ready for occupation in mid-2017, and pre-sale can be launched in the second half of 2016.

Feasibility of Leveraging Private Sector’s Capacity

31. Pursuant to the announcement in LTHS and the 2015 Policy Address, the Government has examined the feasibility of leveraging the private sector’s capacity to help expedite the supply of subsidised sale flats, taking into account past experiences with the Private Sector Participation Scheme (PSPS) and the Mixed Development Pilot Scheme (MDPS), and developments since then.

32. One of the problems of PSPS was the lack of financial incentive for the private sector to ensure quality, as the private sector would receive a guaranteed price for each PSPS flat regardless of whether and at what price the flat was sold to buyers. Reviving PSPS would require the Government and HA to devote extensive supervisory resources, which could have been deployed to develop other public housing projects. The guaranteed price, while providing certainty to the private sector, would impose additional financial burden on HA.

33. As for MDPS, its intention was to safeguard against poor building quality by random selection of subsidised sale flats among a pool of flats built to specifications, with the remaining flats sold by the private sector as private flats. However, since MDPS was not materialised eventually due to the repositioning of the Government’s housing policy in 2002, we are unable to test its effectiveness. Moreover, there are issues that were not envisaged when MDPS was conceived. For example, (a) whether the Government should make the random selection before construction completes (which would allow early

pre-sale but may defeat the purpose of random selection in ensuring quality of completed flats); (b) whether the public would accept difference in prices between subsidised sale flats and similar ones in the private portion (as private flats are often sold in batches and, depending on the prevailing market conditions, their prices may be higher or lower than those of the subsidised sale flats); and (c) how to accommodate the different interests of the owners of subsidised and private flats in the management and maintenance of the development.

34. In addition, given the current tight supply of land, it is unclear that using the private sector's capacity will meaningfully expedite the supply of subsidised sale flats. Under both PSPS and MDPS, the Government awarded "spade-ready" sites to the successful bidders, thus enabling early commencement of construction works. However, existing "spade-ready" sites have either been earmarked for private housing development, or are at the advanced design stage and undergoing other preparatory work (e.g. preparing building plans for statutory approval, tender documents for foundation and superstructure works, etc.) for public housing construction. If we simply re-designate those public housing sites, which HA can otherwise commence construction work soon, for bidding by the private sector, it will not help increase or expedite supply of subsidised sale flats. This is because it takes time to complete the tendering process, and successful bidders have to start the design work afresh, which would result in a delay in the whole process. As for sites that are not "spade-ready", while we may invite the private sector to step in at a much earlier stage by sharing some of the preparatory work, including in particular DC consultation, rezoning, feasibility studies, etc., the private sector might not be as effective with such work as the Government, and might not be interested in such work.

35. Given the above considerations, private sector's involvement would unlikely be able to help expedite or increase the supply of subsidised sale flats in the short to medium term. Nevertheless, we will keep the subject under review and explore possible options as land supply situation improves over the longer term. Meanwhile, we will continue to engage existing partners, including HKHS, to help build subsidised sale flats. Further background information on PSPS and MDPS and our detailed assessment are set out at **Annex C**.

Promoting Circulation

36. In August 2012, HA endorsed an interim scheme to allow buyers with WF status to purchase subsidised sale flats with premium not yet paid under the HOS Secondary Market Scheme (the Interim Scheme). The first round of the Interim Scheme with a quota of 5 000 was launched in January 2013 and concluded in April 2015. A total of 2 406 WF buyers achieved home ownership as a result. Without the Interim Scheme, these WF buyers might have found it difficult to purchase flats in the private property market.

37. Given the strong demand for subsidised sale flats in the society, HA decided to implement one more round of the Interim Scheme with a quota of 2 500 in August 2015. About 43 900 applications were received. Ballots were drawn on 29 October 2015 and Approval Letters will be issued to successful applicants in early 2016. HA will conduct a comprehensive review of the Interim Scheme to decide on its future after the new round of the Scheme completes in the first half of 2017.

38. The Financial Secretary announced in the 2015-16 Budget that the Hong Kong Mortgage Corporation Limited (HKMC) would consider launching a new scheme to help owners of subsidised sale flats pay premium to HA or HKHS in a bid to promote market circulation of such flats. HKMC subsequently launched the Premium Loan Insurance Scheme (PLIS) in September 2015, which enables subsidised sale flat owners aged 50 or above to obtain a loan from a participating bank to settle the premium payment. Borrowers are entitled to stay in their properties during their lifetime and will not need to repay PLIS loan during their lifetime as long as they continue to own the properties. Upon the borrowers' death or the termination of the PLIS loan, the borrowers or their inheritors will have the first right to redeem the property by repaying the bank in full the outstanding loan amount of the PLIS loan within a specified period.⁴ With the settlement of premium payment through the PLIS loan, owners of subsidised sale flats will no

⁴ Details of PLIS can be found at http://www.hkmc.com.hk/eng/our_business/premium_loan_insurance_scheme.html

longer be subject to alienation restrictions and will have greater flexibility in selling or letting their flats in the open market, thereby promoting circulation of these subsidised sale flats and increasing supply in the rental market.

Healthy and Stable Residential Property Market

39. Maintaining the healthy and stable development of the private property market is one of the important housing policy objectives of the Government. To help stabilise the property market and minimise the adverse consequences arising from an overheated market, the Government has adopted a **two-pronged approach** to secure a stable supply of land to meet market demand and to implement demand-side management measures as and when necessary.

40. The Government has reported on the reviews of the Special Stamp Duty, the Buyer's Stamp Duty (BSD), and the doubled ad valorem stamp duty to the Legislative Council in March and August 2015 respectively, one year after the enactment of the respective Stamp Duty (Amendment) Ordinances. Having considered the prevailing local market conditions and external economic situation, the Government considers it necessary to keep the demand-side management measures in place for the time being. The Government will remain vigilant and prudent, and continue to closely monitor the property market and the evolving external environment.

41. As mentioned in LTHS, the Government will continue to work with relevant organisations to promote good tenancy practices. In this regard, the Estate Agents Authority (EAA) has published a booklet entitled "Notes on Signing a Tenancy Agreement". The booklet aims to assist landlords and tenants to better understand the importance of signing a tenancy agreement, the terms that should be included in a tenancy agreement, rights and obligations of landlords and tenants before and after signing the tenancy agreement, as well as points to note for estate agents in dealing with tenancy matters. To further enhance public education efforts, EAA has recently published another booklet entitled "A Guide to Tenancy", and will broadcast a new Announcement in the Public

Interest on good tenancy practices. The booklets are available at EAA's office, and can be downloaded from the webpage of EAA. Apart from the above public education measures, EAA has also from time to time reminded the estate agents (e.g. through issuance of practice circulars) to exercise due care and due diligence when completing tenancy agreements.

Transport and Housing Bureau
December 2015

Projection of the Long Term Housing Demand for the Ten Year Period from 2016-17 to 2025-26

According to the projection methodology adopted by LTHS published in December 2014, housing demand is defined as the total number of new housing units required to provide adequate housing to each and every household over the long term. The methodology takes into account the following components in projecting the number of new housing units required –

- (a) net increase in the number of households;
- (b) households displaced by redevelopment;
- (c) inadequately housed households (IHHs); and
- (d) miscellaneous factors¹.

Latest Projection

(a) Net Increase in the Number of Households

2. The latest domestic household projections published by C&SD in September 2015 are used as the basis for assessing the overall physical housing demand from the net increase in the number of households. Based on C&SD's latest available information, the net increase in the number of households from mid-2016 to mid-2026, amounting to about **247 800 units**, is adopted for projecting the housing demand for the ten-year period from 2016-17 to 2025-26.

3. Similar to last year's projection exercise, in order to conduct scenario analysis on household formation under different economic and property situations, an econometric modeling exercise has been undertaken to quantify the relationship between household formation and economic performance (as proxied by real Gross Domestic Product (GDP) growth rate)

¹ The miscellaneous factors taken into account include (a) private permanent living quarters occupied by households with mobile residents only; (b) non-local students who may take up accommodation in Hong Kong; and (c) non-local buyers who take up flats without selling or leasing them.

and housing market situations (as proxied by vacancy rate of private flats). Results show that the number of household formations will be in the range of 213 100 to 282 500, representing a $\pm 14\%$ ² from C&SD's domestic household projection of 247 800 households over the ten-year projection period from 2016-17 to 2025-26.

4. In the last projection for 2015-16 to 2024-25, we have undertaken to review the effect of various evolving global and local economic factors on the domestic household projections. The latest domestic household projections published by C&SD in September 2015 have already taken the above into account.

(b) Households Displaced by Redevelopment

5. Households displaced by the redevelopment of old buildings in the public and the private sectors have to be rehoused, thus generating new housing demand on top of the net increase in the number of households. Based on announced redevelopment plans of HA and HKHS, as well as past trends in the private sector, it is estimated that there will be a new housing demand of about **45 400 units** from households displaced by redevelopment for the ten-year period from 2016-17 to 2025-26, with the breakdown as follows –

² According to the econometric model adopted, the number of households formed is higher when the local macroeconomic performance is better or the private domestic vacancy rate is higher. Under the base case, in order to project the household formation in the next ten years, it is assumed that the real GDP growth in the next ten years will average at around 3.0% per annum. In making the GDP growth assumption, reference has been made to the GDP forecasts announced in November 2015, the 2015-16 Budget and the report of the Working Group on Long-Term Fiscal Planning. For the private domestic vacancy rate in the next ten years, it is assumed to be the average rate over the past ten years from 2005 to 2014 (4.7%).

In order to work out a lower limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 1% point lower than the base case). Under this lower case scenario, the household formation in the next ten years would be around 14% lower than the base case.

In order to work out an upper limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 1% point higher than the base case). Under this upper case scenario, the household formation in the next ten years would be around 14% higher than the base case.

Redevelopment programmes	Number of units
(a) Redevelopment of public housing units	
<i>HA's redevelopment of Pak Tin Estate</i>	2 900
<i>HA's redevelopment of Wah Fu Estate</i>	2 200
<i>HS's redevelopment programme of Ming Wah Dai Ha</i>	2 300
Sub-total	7 400
(b) Redevelopment of private units (based on past trend of the number of private flats demolished from 2010 to 2014 ³)	38 000
Total = (a) + (b)	45 400

(c) Inadequately Housed Households

6. For households living in public housing which have been built to satisfy the housing needs of the community, they are regarded as living in adequate housing. As regards households living in private housing, the following circumstances are taken into account in determining whether households are inadequately housed for the purpose of the projection –

- (a) if the housing unit is made up of temporary structures (e.g. huts, squatters and roof-top structures);
- (b) if the unit is located in a non-residential building (e.g. commercial and industrial building);
- (c) if the unit is shared with other households (e.g. those living in rooms, cubicles, bedspaces and cocklofts in private permanent buildings); and
- (d) if the unit is subdivided.

³ From 2010 to 2014, the average number of private flats demolished was about 1 900 per year. As regards the number of households displaced by private redevelopment, there may be more than one household in a unit in older private buildings, and this should be taken into account in the projection. However, there is currently no reliable data to make a projection of this situation. The only benchmark that we can draw reference from is URA's data. According to URA's data, about 1 100 units were affected in its urban redevelopment projects commenced between 2010-11 and 2014-15, in which about 2 200 households were involved. In other words, there were on average about 2.0 households living in a private unit demolished. Therefore, it is estimated that the number of households displaced by redevelopment in the projection period will be 38 000 (= 19 000 x 2.0).

7. In respect of paragraph 6(a), based on the 2011 Population Census and updated with the findings of the General Household Survey (GHS) conducted by C&SD, it is estimated that in 2014⁴ there were about 16 100 households living in temporary structures. As for paragraph 6(b), according to the 2011 Population Census, there were 3 000 households living in non-residential buildings (there are no updates from GHS as it does not cover such units). As for paragraph 6(c), according to the 2011 Population Census and updated with GHS, there were 12 400 households living in shared units.

8. As for paragraph 6(d), C&SD has commissioned a survey on households living in sub-divided units (SDUs) in its Thematic Household Survey on Housing Conditions of Sub-divided Units in Hong Kong in 2015 (2015 THS). While the fieldwork of 2015 THS has been completed, the detailed figures are still being compiled. C&SD has provided some provisional estimates for the purpose of long term housing demand projection. Based on these estimates, there are a total of 87 600 households⁵ living in SDUs in private domestic / composite buildings (excluding village houses) aged 25 and above in Hong Kong, with breakdown as follows –

- (a) 5 600 households are living in SDUs without observable physical partitions (i.e. rooms, cubicles, bedspaces and cocklofts inside a unit of quarters); and
- (b) 82 000 households are living in SDUs with observable physical partitions. Out of these 82 000 households, 41 300 are living in SDUs located in buildings aged between 25 and 50 years, while the remaining 40 700 households are living in SDUs located in buildings aged above 50 years.

⁴ For the purpose of the annual updating of the demand projection, the 2011 Population Census results were updated based on annual trend data observed from GHS over the years 2011 to 2014.

⁵ We have been using the number of households as the basis for assessing housing demand from various components in the long term housing demand projection. Following this logic, the estimated number of households living in SDUs should be adopted in the projection to tally with the demand assessment of other components. However, in projecting the housing demand for 2015-16 to 2024-25 last year, the estimated number of households living in SDUs was not available in time from the Thematic Household Survey on Housing Conditions of Sub-divided Units in Hong Kong in 2014. Instead, only the estimated number of SDUs was available. Therefore, we adopted the estimated number of SDUs in last year's projection. This year, as the estimated number of households living in SDUs is already available from the 2015 THS, we have adopted it for housing demand projection for 2016-17 to 2025-26 in order to tally with the basis of other demand components. Regardless of whether the estimated number of households living in SDUs or the estimated number of SDUs is adopted in the current projection, the projected total housing supply target for 2016-17 to 2025-26 will be the same after rounding.

9. On paragraph 8(a) above, as explained in paragraph 7, a similar figure on households living in rooms, cubicles, bedspaces and cocklofts inside a unit of quarters is available from the 2011 Population Census and GHS. As the coverage of the 2011 Population Census and GHS is more comprehensive and the estimated figure (i.e. 12 400 households) is larger than that estimated in the 2015 THS (i.e. 5 600 households), following the conservative approach in past demand projection exercises, the figure of 12 400 households is adopted for the purpose of projecting housing demand.

10. On paragraph 8(b) above, as similar figures are not available in the 2011 Population Census / GHS, only the estimated number provided in the provisional results of the 2015 THS can be used in the projection. Since SDUs situated in buildings aged above 50 years have a higher chance to be redeveloped in the next ten years, adjustments are necessary to deduct households living therein from the estimate of housing demand in order to avoid double counting with households displaced by private redevelopment.

11. Drawing reference from data kept by the Rating and Valuation Department (RVD), we project that the demolition rate of private residential units aged above 50 years old would be 16.9% over a period of ten years⁶. According to the provisional data of the 2015 THS, there are 40 700 households living in SDUs with observable physical partitions located in buildings aged above 50 years. Applying the demolition rate of private units aged above 50 over ten years to these 40 700 SDUs located in buildings aged above 50 years, it is estimated that about 6 900 (= 40 700 x 16.9%) of them would be redeveloped in the next ten years. They should be deducted from the estimate of IHHs to avoid double counting. Accordingly, the estimated demand from households living in SDUs will be about 75 100 units (= 82 000 – 6 900).

12. In respect of households living in shared units and SDUs, it is observed that not all households living in these units are necessarily

⁶ According to RVD's data, there were about 1 090 600 private domestic units in Hong Kong as at the end of 2009, of which about 36 000 units were built before 1960 (i.e. having reached age 50 in 2010). In each of the years of 2010, 2011, 2012, 2013 and 2014, about 390, 430, 800, 580 and 850 units which were built before 1960 were demolished respectively. In other words, an average of about 610 units per year is demolished in these five years. Assuming this trend would continue for the future five years, the number of units which have reached age 50 in 2010 and would be demolished in the ten-year period from 2010 to 2019 would be about 6 100 units (= 610 x 10), accounting for about 16.9% of the total stock of 36 000 units. We have further applied this demolition rate in the projection for the period from 2016-17 to 2025-26.

inadequately housed given the fact that these units vary in standards and actual living environments. It is also observed that a unit shared by two or more households or subdivided into two or more units may be able to provide adequate housing for one household if it is not shared or subdivided. In other words, there may not be a need to provide adequate housing to all the households living in a shared unit or an SDU. Nevertheless, we note that THS has its limitations as it only covers private domestic / composite buildings aged 25 years and above. We have therefore continued to adopt a conservative approach and included all these households in this year's housing demand projection. C&SD will conduct the Population By-census in 2016 which will have a more comprehensive coverage of households living in SDUs. We hope that the Population By-census results will enable us to have a more comprehensive understanding of the situation of SDUs and shed light on whether it is necessary to continue to adopt a conservative approach on this issue.

13. Summing up the above estimations, the estimated number of IHHs is 106 600, with the breakdown summarised as follows –

	Category of IHHs	Estimated number	Source of information
(a)	Households living in units made up of temporary structures	16 100	2011 Population Census and updated with the trend based on GHS
(b)	Households living in non-residential buildings	3 000	2011 Population Census
(c)	Households sharing the same unit with other households	12 400	2011 Population Census and updated with the trend based on GHS
(d)	Households living in SDUs with observable physical partitions	75 100	Based on provisional estimates from the 2015 THS
	Total	106 600	

(d) Miscellaneous Factors

14. Apart from the above demand components, there may also be demands in the next ten years which are unaccounted for in C&SD's domestic household projections. These include –

- (a) an annual increase of some 700 households with mobile residents⁷ only who are occupying private permanent living quarters, based on the past trend as observed from results of the 2001 Population Census and the 2011 Population Census;
- (b) non-local students who might take up accommodation in Hong Kong. On this, reference has been drawn from the past trend of the number of student visas issued (from about 14 500 in 2009-10 to about 29 100 in 2014-15), and provisional figures from the Education Bureau and the University Grants Committee in 2014-15 that about 60% of these students (including undergraduates and postgraduate students) were not living in residential halls / hostels provided by the institutions. Assuming a similar trend of increase in the number of non-local students in the next ten years (i.e. a net increase of some 1 800 non-local students per year needing to find their own accommodation in the private housing market), and further assuming that on average two non-local students will share one housing unit, the estimated housing demand will amount to some 900 units per year; and
- (c) apart from the demand from the local population, there may be some buyers from outside Hong Kong who may purchase flats but without channelling them back to the market (i.e. not selling or leasing out their units). Drawing reference from statistics of the Inland Revenue Department (IRD) and RVD, it is estimated that the demand of non-local buyers who may take up flats but without channelling them back to the market⁸ will be in the range of 1 450 to 2 690 units

⁷ Mobile residents refer to Hong Kong permanent residents who have stayed in Hong Kong for at least one month but less than three months during the six months before or after the reference time-point, regardless of whether they are in Hong Kong or not at the reference time-point.

⁸ Although these units are bought by non-local buyers and without being channelled back to the market, this does not imply that they are vacant units. These units may be occupied by the owners as residence, second home, vacation home or for other purposes.

per year, i.e. a mid-point of about 2 070 units per year⁹.

15. Assuming that the past trends as detailed above will continue in the next ten years, there will be an additional housing demand of some 3 670 units per year (= 700 + 900 + 2 070), or a total of 36 700 units over the ten-year period from 2016-17 to 2025-26, with an upper and lower range of 42 900 and 30 500 units respectively.

Gross Total Housing Demand

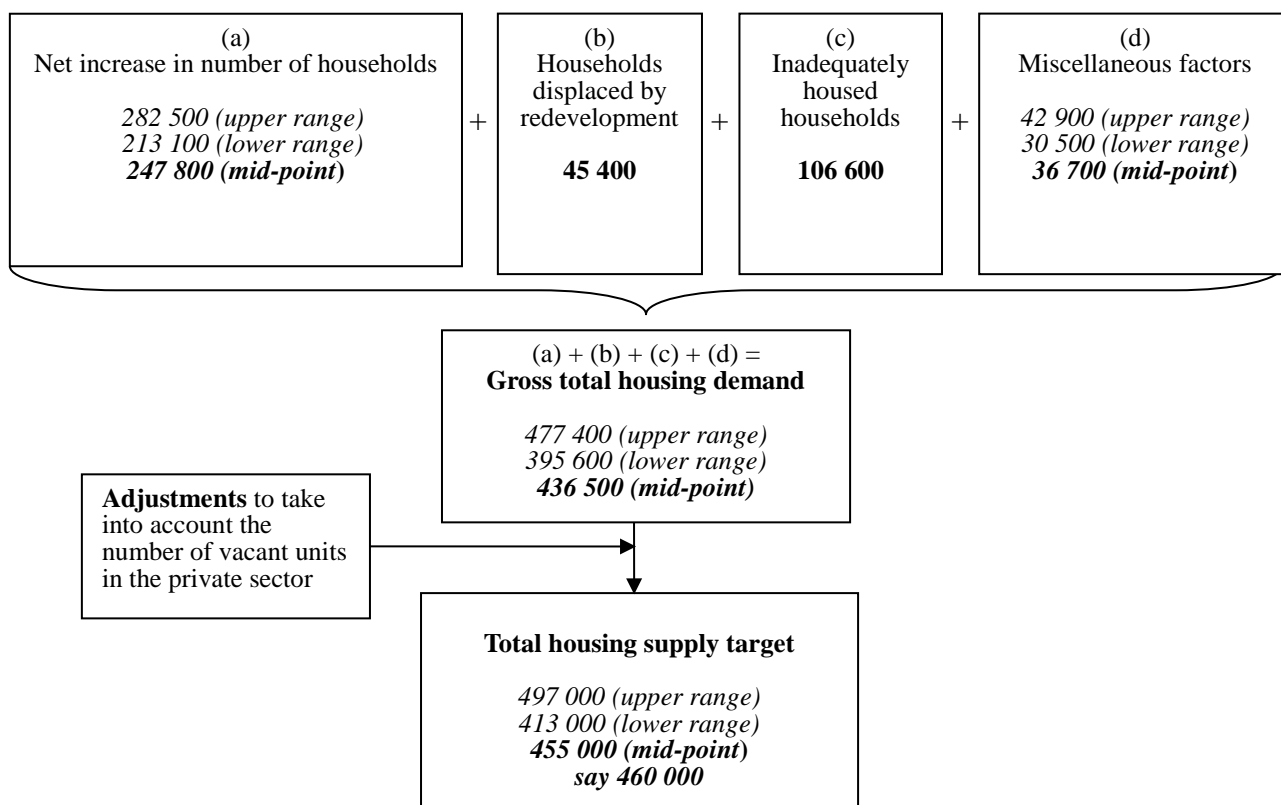
16. In summary, it is estimated that there will be a net increase of 247 800 households in the projection period, with an upper and lower range of 282 500 and 213 100 households respectively. As regards households displaced by redevelopment, it is estimated that there will be 45 400 households displaced by redevelopment in the projection period. The estimated number of IHHs is 106 600. As for the miscellaneous factors, it is estimated to be 36 700 units, with an upper and lower range of 42 900 and 30 500 units respectively. Summing up these demand components, the estimated gross total housing demand will be 436 500 units (mid-point) for the projection period from 2016-17 to 2025-26, with an upper and lower range of 477 400 and 395 600 units respectively.

⁹ IRD's stamp duty statistics show that purchases of residential properties by non-local buyers (including non-local individual and non-local company buyers) had been generally rising in 2007 to 2011. Their purchases as a share of total transactions rose from 3.5% in 2007 to 4.5% in 2010 and further to 6.5% in 2011. After the Government introduced BSD, their purchases averaged at 1.8% of total transactions in January 2013 to June 2015. With reference to the above, it is crudely assumed that the share of purchases by non-local buyers would be 5.0% (average share of non-local buyers among all transactions in 2009 to 2011) as the upper range and 1.8% as the lower range. Using the annual average number of stamped transactions in 2005 to 2014 (107 400 cases) as rough indication, the purchases by non-local buyers would be around 5 370 cases per year as the upper range and 1 930 cases per year as the lower range in the coming ten years, with a mid-point of 3 650 cases.

According to analysis conducted on transactions suspected to involve non-local buyers, around 52% to 55% of the properties purchased in 2010 to 2012 were let out and had active records in RVD's rental database. Yet the share plunged to an average of 25% in 2013 and 2014 combined (21% in 2013 and 28% in 2014), which might reflect the more significant effect of BSD on investors than owner-occupiers. Based on the above, it is assumed that in the upper case where the share of purchases by non-local buyers is taken as 5% (or 5 370 cases), half of the purchases (50%) by non-local buyers would be owner-occupied or left vacant, and the remaining 50% would eventually be channelled back into the leasing market for the local population for take-up; whereas in the lower case where the share of purchases by non-local buyers is taken as 1.8% (or 1 930 cases), it is assumed that 75% of the purchases would be owner-occupied or left vacant. Applying these ratios to the total purchases by non-local buyers, the projected demand by non-local buyers would thus be around 2 690 units per year as the upper range and 1 450 units as the lower range in the coming ten years, and the mid-point would be about 2 070 units per year.

Total Housing Supply Target

17. As there are always a certain number of flats left vacant in the private sector at any point in time, to derive the total housing supply target, we have to take into account the number of vacant units at the beginning of the projection period (about 43 260) and the possible vacancy rate at the end of the projection period. On this, we have drawn reference from the average vacancy rate in the private sector from 2005 to 2014 (about 4.7%) as the basis for estimation. According to projection results of the gross total housing demand, and taking into account the vacancy situation of private flats, it is projected that the total housing supply in the next ten years should range from 413 000 to 497 000 units, with the mid-point being 455 000 units. Details are summarised below –



**Other Initiatives to Increase Housing Land Supply
and Expedite Land Development**

Streamlining of the Land Administration and Building Regimes

Pilot Scheme for Arbitration on Land Premium

To facilitate early agreement on premium for lease modification / land exchange applications so as to speed up land supply for housing and other uses, the Pilot Scheme for Arbitration on Land Premium (Pilot Scheme) for lease modification / land exchange applications was launched in October 2014. The Pilot Scheme is being implemented for a trial period of two years, to be followed by a review by the Government. The Lands Department (LandsD) or an applicant for individual lease modification / land exchange cases fulfilling the promulgated criteria may propose for the other party's agreement the use of arbitration to determine premium. As of November 2015, LandsD had invited applicants of 11 lease modification / land exchange cases to settle premium through arbitration under the Pilot Scheme. One applicant has accepted the arbitration option and LandsD is processing the case in consultation with relevant departments. LandsD will continue to select suitable lease modification / land exchange cases and invite relevant applicants to determine premium through arbitration.

Facilitating Building Approval Process

2. The Buildings Department (BD) spares no effort in facilitating building developments whilst ensuring public safety and health. To expedite clearance of the fundamental design principles (particularly performance-based design approach and uncommon engineering design) before formal submission of plans, BD has been providing a pre-submission enquiry service to building professionals. Upon receipt of a written enquiry, BD will provide its determination on the subject matters within 45 days. If necessary, BD also helps invite relevant government departments to attend pre-submission conferences with the

building professionals to examine the issues involved. As a further step, in 2015, BD conducted with the industry a joint benchmarking exercise on plan submission quality, resulting in the formulation of a series of practical checklists and guidelines to facilitate the building professionals in preparing submissions that meet BD's requirements.

3. In addition, BD has been undertaking a host of on-going measures to help expedite the building development process. For instance, for formal plan submissions, BD has adopted a curtailed check system whereby only specified fundamental issues are examined, while the non-fundamental issues are assured by building professionals themselves of compliance with the relevant regulations.

4. Throughout the entire development process, BD undertakes to answer any question on compliance or interpretation of building regulations within four weeks from receipt to further facilitate building professionals in ensuring their design details comply with BD's requirements.

5. Statutory time limits¹ apply to the building approval process, which if exceeded may deem the plan under application as approved. Fast-track concurrent applications for approval of plans and consent to the commencement of works are permissible to further streamline the approval process for building works that meet certain prescribed criteria. To avoid any delay to construction works, approval and consent for minor amendments of building, superstructure and drainage works may be conditionally deferred until the application of occupation permit.

6. To ensure that the control regime is fit-for-purpose, BD has established consultative platforms to discuss with building professionals and other industry representatives various building control matters, as well as technical committees to review technical specifications. These forums gather industry feedback on their experience in the building approval process, and enable BD to exchange views with the industry on the latest advancements in design, technologies and construction methods, as well as relevant overseas regulatory controls and standards.

¹ Processing of new submission of plans is 60 days and processing of resubmission of amendment plans and application for consent to commencement of works is 30 days.

Enhancing Manpower Supply of the Construction Industry

7. In collaboration with the Construction Industry Council (CIC), the Government adopts a multi-pronged approach to enhance manpower supply of the construction industry. The enhancement measures include the provision of various subsidised training schemes and the rolling out of a series of publicity and promotional activities under the “Build Up Publicity Campaign”. From 2009 to October 2015, CIC has trained more than 18 000 semi-skilled workers. With the financial support from the Government, CIC launched a pilot scheme in September 2015 to upgrade the skills of semi-skilled workers to the level of skilled workers. From the launch of the publicity campaign in 2011 to October 2015, the number of registered construction workers increased from about 272 000 by about 32% to about 360 000.

8. Notwithstanding the training and publicity efforts, the construction industry is still facing shortage of skilled workers to meet the mounting manpower demand. Under the premise of giving priority to the employment of local workers and safeguarding their wage levels, the construction industry needs to import skilled workers in a timely and effective manner. Having regard to the unique operational characteristics of public sector works contracts, the Government rolled out measures in 2014 and 2015 to enhance the prevailing Supplementary Labour Scheme. The Government will continue to keep close contact with the industry and review the effectiveness of the above measures, and explore other measures to facilitate contractors in genuine need to import construction workers.

**Feasibility of Leveraging the Private Sector's Capacity
in the Provision of Subsidised Sale Flats**

Private Sector Participation Scheme

PSPS flats were first launched for sale in 1978 as a supplement to HOS flats. The Government invited tenders from the private sector for a PSPS site on which subsidised sale flats had to be built to the Government's specifications (e.g. number of flats, flat sizes, number of car parking spaces, etc.) contained in the Conditions of Sale. The land premium went to the Government. The flats had to be sold by the private sector to eligible buyers nominated by HA. The private sector would receive a guaranteed price (calculated based on the estimated construction costs, overheads, costs of land formation, services and contingencies, as well as a location factor) for the sale of PSPS flats, whereas the actual selling price paid by buyers would be determined by HA in accordance with the prevailing HOS pricing policy. HA would bear or receive the difference between the guaranteed price and the actual selling price. HA would buy back unsold flats at the guaranteed price.

2. PSPS was terminated with the repositioning of housing policy in 2002. Until its termination, PSPS produced a total of about 98 000 subsidised sale flats in 47 projects. PSPS was also able to capitalise on the private sector's expertise and provided prospective buyers with a greater variety of products. However, there were criticisms on the quality of some PSPS flats particularly in respect of the standard of the fitting-out and workmanship. Since the private sector under PSPS received a fixed sum for the development and were not responsible for selling the flats, they might cut costs at the expense of quality in order to maximise profits. Moreover, many successful bidders of PSPS projects were construction contractors instead of property developers. As they did not have their own housing developments, they did not need to worry about negative impact on sales of their own flats if the quality of their PSPS flats was poor. Despite a number of quality assurance measures implemented from time to time to address the issue, the lack of financial

incentive for successful bidders of PSPS projects to enhance building quality remains an inherent problem.

3. In view of the quality issue, reviving PSPS would require the Government and HA to devote extensive supervisory resources which could have been deployed to develop other public housing projects. This would defeat the very purpose of tapping the private sector's resources to expedite the supply of subsidised sale flats. Besides, although HA was able to obtain a surplus under PSPS then (i.e. selling price of flats received less the guaranteed price paid to the private sector), which helped fund the construction of PRH, such an arrangement may no longer be financially viable nowadays with the significant increase in construction costs as well as the volatile residential market condition. There is a risk that the guaranteed price set at the outset would turn out to be much higher than the selling price determined by HA at the time of pre-sale, thus impairing HA's financial position.

Mixed Development Pilot Scheme

4. In 1998, the Government introduced MDPS and invited HKHS to implement the scheme. MDPS sites were sold by open tender with land premium going to the Government.¹ Unlike PSPS, MDPS projects included both subsidised and private housing. Flats representing 60% of the saleable area of a project had to be built to the standard specified in the Conditions of Sale. Half of those flats (i.e. 30% of the saleable area of the project concerned) would be selected randomly to be sold as subsidised flats. HKHS would pay the private sector \$1 nominal consideration for the selected flats and sell them to eligible buyers (under the same eligibility criteria as HOS flats) at a selling price determined in accordance with the prevailing HOS pricing policy². HKHS would receive the entire sale proceeds and pay land premium to the Government for the subsidised flats. HKHS would also need to monitor the quality of the subsidised sale flats and bear potential liability for any unsold flats.

¹ Two sites were tendered under MDPS, namely the Sham Wan Towers (深灣軒) in Ap Lei Chau and AquaMarine (碧海藍天) in West Kowloon Reclamation. However, after the repositioning of the Government's housing policy in 2002, the two pilot projects, which were in progress at that time, were terminated and converted into private housing.

² Both the eligibility criteria and selling prices would be approved by the then Secretary for Housing.

5. MDPS had some intended benefits as compared to PSPS. In terms of quality, the random selection of subsidised sale flats from among a pool of flats would serve as a safeguard against poor quality. In addition, since the private sector would retain a significant portion of the flats in the development for sale as private housing units, they would have a stronger incentive to maintain or even enhance the overall quality for the development. However, since MDPS was aborted following the repositioning of the Government's housing policy in 2002, we are unable to know whether the scheme would have operated as intended.

6. It should be noted that should MDPS be revived and HKHS is again invited to implement MDPS by being assigned the subsidised sale flats and then resells them, if the various demand-side management measures are still in force by then, the Special Stamp Duty will be applicable to HKHS. Moreover, despite the intended design to enhance flat quality, MDPS would give rise to a number of issues –

- (a) unlike private flats being sold at market value determined by the private sector, subsidised sale flats are intended to be sold at a discount to market value under the prevailing HOS pricing policy, and the discount is related to the affordability of eligible households within the HOS income limit. Moreover, the private sector often sell their private flats in batches over a period of time, whereas subsidised sale flats of a given project are usually sold in a single exercise. The prices of private flats within an MDPS development can thus be significantly higher or lower than those of the subsidised sale flats. The public may not accept that the prices of the subsidised flats are different from those of similar flats in the private portion;
- (b) if we perform the random selection of the subsidised sale flats within an MDPS development before construction completes to allow early pre-sale, there is a risk that the selected flats may not be completed to the required standard, thus defeating the very purpose of the random selection process. However, if flat selection takes place after completion of construction work, pre-sale will not be possible; and

- (c) interface issues concerning management and maintenance responsibilities between private and subsidised sale flat owners may occur. For example, private flat owners may in future wish to upgrade the common facilities to a standard that the subsidised flat owners may consider unaffordable. Since the subsidised portion would account for no more than 30% of the entire MDPS project, the interests of the subsidised flat owners may be compromised.

A mixed development scheme would not be viable unless the above issues are resolved.

Considerations

7. Having regard to the experience of PSPS and MDPS and the current state of housing supply, we consider that any scheme that seeks to leverage the private sector's capacity must be able to (a) promote building quality, thus directing public resources to housing construction rather than the supervision of the private sector and (b) expedite the supply of subsidised sale flats.

8. To align the private sector's interests with the provision of quality flats, the private sector should both enjoy the benefits and bear the risks of the project. Instead of receiving a "guaranteed price" as in the case of PSPS, the private sector should bid the project site through public tender, pay market premium for the site and receive the entire sale proceeds of all subsidised sale flats on the site without any guarantee from the Government to buy back unsold flats. As the private sector would bear the full risks of unsold flats, it would be in their interests to ensure that the flats are of sufficient quality to attract buyers, thus minimising the Government's supervisory resources on quality compliance. To ensure that the flats are affordable, the private sector should sell them to eligible buyers (nominated by, say, HA) at a price determined according to the prevailing HOS pricing policy.

9. However, a scheme developed along the above thinking is not without drawbacks. It has been HA's established practice to determine the discount to be offered for subsidised sale flats shortly before the time

of sale so that the selling price will align closely with the affordability of target buyers (i.e. low to middle income households). Yet, this would expose the private sector to huge financial uncertainty as they need to place their bids several years before the development is ready for sale, and would undermine their interest in such projects. The risk factor would also significantly depress the land premium receivable by the Government. Even if we specify a range of discount (say, by making reference to the discount historically offered by HA in HOS sale exercises) in the Conditions of Sale to reduce the private sector's financial risk, the prospective private sector would still be inclined to take a conservative approach by basing their bids on the highest discount. On the other hand, if the actual discount determined by HA turns out to be lower and hence higher selling prices could be fetched by the private sector, the resulting windfall might be perceived by the public as a kind of "transfer of benefits" in favour of the private sector.

10. In addition, given the current tight supply of land, it is unclear that using the private sector's capacity will meaningfully expedite the supply of subsidised sale flats. Under both PSPS and MDPS, the Government awarded "spade-ready" sites to the successful bidders, thus enabling the early commencement of construction works. However, existing "spade-ready" sites have either been earmarked for private housing development, or are at advanced design stage and undergoing other preparatory work (e.g. preparing building plans for statutory approval, tender documents for foundation and superstructure works, etc.) for public housing construction. If we simply re-designate those public housing sites, which HA can otherwise commence construction work soon, for bidding by the private sector, it will not help increase or expedite supply of subsidised sale flats. This is because it takes time to complete the tendering process, and successful bidders have to start the design work afresh, which would result in a delay in the whole process. As for sites that are not "spade-ready", while we may invite the private sector to step in at a much earlier stage by sharing some of the preparatory work, including in particular DC consultation, rezoning, feasibility studies, etc., the private sector might not be as effective with such work as the Government, and might not be interested in such work.

11. Given the above considerations, private sector's involvement

would unlikely be able to help expedite or increase the supply of subsidised sale flats in the short to medium term. We will keep the subject under review and explore possible options as land supply situation improves over the longer term.