

**For information
on 9 January 2017**

Legislative Council Panel on Housing

**Hong Kong Housing Authority's measures to
maximise the rational use of public rental housing resources**

Purpose

This paper briefs Members on the latest measures of the Hong Kong Housing Authority (HA) to focus efforts in allocating limited public rental housing (PRH) resources to those with more pressing needs.

Background

2. While the Long Term Housing Strategy (LTHS) published in 2014 adopts the supply-led principle to increase land and housing supply, it also advocates the rational use of PRH resources. The analysis in paragraphs 4.7 and 4.8 of the LTHS is as follows –

“4.7 Despite the best efforts of the Government and the HA, the supply of new PRH units cannot be unlimited from the perspective of both land and financial resources. To ensure that precious PRH resources are used to assist those in genuine need, PRH applicants have to meet eligibility criteria on income and assets. The HA reviews the income and asset limits annually to keep them in line with the prevailing socio-economic circumstances.

4.8 In addition to eligibility criteria on income and assets, it is necessary to have other measures to allocate PRH flats in a fair and rational manner and to ensure the rational use of PRH resources.”

3. The target of the Government and HA is to provide the first flat offer to general PRH applicants (i.e. family and elderly one-person applicants) at around three years on average. As at end-September 2016, there were 152 500 general applications; the average waiting time (AWT) ¹ was 4.5

¹ Waiting time refers to the time taken between registration for PRH and first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirement;

years, among which the AWT for elderly one-person applicants was 2.4 years. There were also 134 000 non-elderly one-person applications under the Quota and Points System (QPS).

4. In light of the increasing demand for PRH, HA considers that while making the best efforts to increase PRH supply, it is necessary to examine at the same time how to better utilise existing PRH resources to ensure that efforts can be focused towards allocating PRH resources to those with more pressing housing needs. Accordingly, HA's Subsidised Housing Committee (SHC) discussed relevant issues at its meetings of 31 October and 9 December 2016. SHC endorsed a few new measures which do not require changes in policies; and also refined the "Well-off Tenants Policies". SHC will continue to examine other relevant issues.

SHC's discussion

Measures not requiring changes in current policies

5. For issues which do not require changes in current policies, SHC endorsed to implement the following measures starting from 2017-18 –

- (a) merging the Territory-wide Over-crowding Relief Exercise and the Living Space Improvement Transfer Scheme, and reducing the number of flats earmarked from about 2 000 flats every year currently to about 1 000 flats, so that more flats can be released for allocation to PRH applicants. After the two transfer schemes are merged, priority will still be given to overcrowded tenants with an internal floor area below 5.5 m² per person. In addition, transfer schemes will be arranged in the latter half of each year in order to expedite flat allocation to PRH applicants;
- (b) reducing the two rounds of flat selection each year under the Express Flat Allocation Scheme to one round, so that relevant flats can be released earlier for the Housing Department (HD) to allocate them under the normal procedures; and

the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc). The AWT for general applicants refers to the average of the waiting time of those general applicants who were housed to PRH in the past 12 months.

- (c) stepping up enforcement actions against tenancy abuse to convey HA's determination in combating tenancy abuse and the message of proper use of valuable PRH resources to the community.

6. SHC also noted that as at end-June 2016, four-person households accounted for the largest number of applicants who had waited for over five years but without any flat offer in all districts choices. Besides, given the long waiting time of four-person households, there are views from the community that PRH flats suitable to house three to four persons should be allocated to four-person households who are waiting for PRH. Taking into account these concerns, HD has analysed relevant issues for further discussion at future SHC meetings.

7. Details of the various measures above are set out at **Annex A**.

Issues requiring changes in policies

“Well-off Tenants Policies”

8. SHC examined the “Well-off Tenants Policies” at its meeting of 31 October 2016, and agreed in principle that if PRH tenants' income or assets exceed a higher threshold than the existing ones; or if tenants have private domestic property ownership in Hong Kong (irrespective of their declared levels of income or assets), they have to vacate their PRH flats. At the subsequent meeting of 9 December 2016, SHC endorsed specific measures to amend the “Well-off Tenants Policies”. Details are set out at **Annex B**. SHC considered that the implementation of the amended “Well-off Tenants Policies” should be handled with care. Taking into account SHC's views, HD will further examine the implementation details and submit supplementary information on the implementation arrangements to SHC.

Policy on allowing persons currently living in PRH to apply for another PRH flat

9. At its meeting of 31 October 2016, SHC considered that when compared with applicants living in private rental accommodation (especially those living in “sub-divided units”), general applicants who are currently living in PRH had relatively less pressing needs for another PRH flat. Considering the fact that under the QPS, non-elderly one-person applicants who are currently living in PRH would be deducted 30 points to reflect their relatively lower priority, SHC considered that a similar mechanism could be

introduced by imposing a frozen period (say one year) on general applicants currently living in PRH, so as to reflect their relatively lower priority as compared to those applicants who are living in private rental accommodation. Based on the above views, HD has submitted a few possible implementation options for SHC's further consideration. Details are set out at **Annex C**.

Under-occupation Policy

10. SHC noted at its meeting of 31 October 2016 that HD will conduct a comprehensive review of the Under-occupation Policy, and will submit the results for SHC's further discussion after taking into account various factors. Details are set out at **Annex D**.

Way forward

11. The above measures will not have an immediate effect in shortening the AWT in the short term. The supply-led principle under LTHS remains indispensable in addressing the supply-demand problem of PRH. Nonetheless, in light of the increasing demand for PRH, as well as the large number of inadequately housed households waiting for PRH, HA considers that it is still necessary to examine relevant policies and implement the relevant measures in order to better allocate PRH resources to applicants with more pressing needs, and to enable relevant policies to be more equitable.

12. Members are invited to note this paper for information.

**Transport and Housing Bureau
December 2016**

New measures not requiring changes in current policies

A. Transfer schemes

Background

Currently, PRH tenants can apply for the Territory-wide Over-crowding Relief Exercise (TWOR) (for tenants with an internal floor area (IFA) below 5.5 m² per person) or the Living Space Improvement Transfer Scheme (LSITS) (for tenants with an IFA below 7 m² per person) to transfer to larger flats every year.

2. In the three years from 2013-14 to 2015-16, the number of applications and transfers under TWOR and LSITS are shown in the following table –

| Year | TWOR | | LSITS | | | |
|---------|---------------------------------------------------------|------------------|---------------------------------------------------------|------------------|-----------------------------------------------------------------|------------------|
| | Tenants with an IFA below 5.5 m ² per person | | Tenants with an IFA below 5.5 m ² per person | | Tenants with an IFA between 5.5 and 7 m ² per person | |
| | No. of applications | No. of transfers | No. of applications | No. of transfers | No. of applications | No. of transfers |
| 2013-14 | 2 360 | 960 | 880 | 390 | 3 720 | 670 |
| 2014-15 | 1 540 | 130 | 1 020 | 450 | 3 530 | 720 |
| 2015-16 | 1 410 | 960 | 1 170 | 380 | 3 500 | 760 |

3. In 2016-17, about 2 000 flats have been earmarked for the above two transfer schemes. As at end-June 2016, the number of over-crowded PRH households (i.e. tenants with an IFA below 5.5 m² per person) was about 3 600 (accounting for about 0.49% of PRH tenants), which is lower than the Housing Authority (HA)'s key performance indicator of 0.55%.

SHC's considerations and decision

4. HA's Subsidised Housing Committee (SHC) noted that transfer schemes would not affect the overall number of flats available for allocation. However, the Housing Department (HD) needs to reserve flats for transfer of existing tenants, and it takes time to recover the original flats from the

transferees for re-letting to PRH applicants. According to past experience, it usually takes about six to seven months from the announcement of a transfer scheme to re-letting flats recovered from transferees to PRH applicants after refurbishment. In other words, transfer schemes inevitably have an indirect impact on the waiting time of PRH applicants.

5. SHC also noted that the number of transfer applications from over-crowded tenants fluctuates from year to year, depending on whether they eventually submit an application. Taking into account the increasing demand for PRH, and the fact that the basic housing needs of existing tenants have been met, SHC considered that the above two transfer schemes should be merged and the number of flats earmarked for the purpose reduced, so that more flats could be released for allocation to PRH applicants.

6. After discussion, SHC endorsed at the meeting of 31 October 2016 that starting from 2017-18, TWOR and LSITS will be merged, and the number of flats reserved for the transfer schemes will be reduced from about 2 000 flats every year currently to about 1 000 flats, so that more flats can be released for allocation to PRH applicants. After the two transfer schemes are merged, priority will still be given to over-crowded tenants with an IFA below 5.5 m² per person. Besides, SHC also agreed to arrange the transfer to take place in the latter half of each year in order to expedite flat allocation to PRH applicants.

B. Express Flat Allocation Scheme (EFAS)

Background

7. Currently, two rounds of flat selection are conducted every year under EFAS for allocation of less popular PRH flats. Flats which are not selected in the first round will be made available for selection again in the second round. Flats which are not selected in the two rounds will be ploughed back for allocation to applicants through the normal process. According to HD's experience, it takes a total of about ten months from the commencement of application to completion of the two rounds of flat selection.

8. In recent years, the number of less popular flats has shown a downward trend, decreasing from about 2 500 flats in 2012 to about 1 300 flats in 2015. Meanwhile, the acceptance rate of flats under EFAS has shown an upward trend, increasing from an average of about 34% between 1997 and 2005 to about 64% in the past five years. The number of flats available for

selection in the second round is also very limited, with only about 450 flats in 2015.

SHC's considerations and decision

9. SHC noted the decreasing number of less popular flats in recent years, and that the number of flats which needs to be allocated through EFAS has also reduced as a result. Coupled with the upward trend in the acceptance rate of flats under EFAS, the number of flats available for selection in the second round under EFAS has become very limited. In other words, more PRH flats can be successfully allocated to applicants either through the normal allocation procedures; or during the first round of flat selection under EFAS. Therefore, it appears that there is no longer any practical need to maintain two rounds of flat selection under EFAS.

10. SHC also noted that flats which are not selected in the two rounds of flat selection will be held up for as long as ten months before they can be allocated to PRH applicants again under the normal procedures. From the perspective of allocation efficiency, SHC considered that it might not be necessary to conduct a second round of flat selection under EFAS, so that the reserved flats could be released earlier for HD's allocation under the normal procedures.

11. After discussion, SHC endorsed at the meeting of 31 October 2016 that starting from 2017-18, only one round of flat selection, instead of two, would be conducted under EFAS each year, so that reserved flats can be released earlier for HD's allocation under the normal procedures.

C. Allocation of PRH units

Current allocation standard for PRH

12. HA's current allocation standard for PRH is no less than 7 m² IFA per person. At present, newly completed PRH flats are mainly categorised into four types –

| Type of flats | IFA | Allocation range |
|---------------|-------------------------|------------------|
| A | about 14 m ² | 1 - 2 persons |
| B | about 21 m ² | 2 - 3 persons |
| C | about 31 m ² | 3 - 4 persons |
| D | about 35 m ² | 4 - 5 persons |

Views on allocation for four-person family applicants

13. According to the current arrangement for allocating newly completed flats, four-person households will be allocated Type D flats (with an IFA of about 35 m², suitable for allocation to four to five persons)¹. There are views that the allocation standard should be tightened in a comprehensive manner by adopting the upper limit of the household size (e.g. a flat suitable for allocation to three to four persons should only be allocated to a four-person household). There are also views that in order to help shorten the waiting time of four-person households, these households should be given an option to choose whether to accept Type C flats (IFA of about 31 m²).

14. HD's analysis on the above suggestions is set out below –

- (a) if newly completed Type C flats are allocated to four-person households, the number of flats available for allocation to three-person households will reduce, hence directly affecting the waiting time of the latter. As shown in the **Appendix**, while four-person households account for the largest number of applicants who have waited for over five years but without housing offer in all district choices, three-person households noticeably constitute the majority of applicants who had waited for three to five years but without housing offer;
- (b) if four-person households are allocated Type C flats, for the sake of consistency, HA similarly has to consider allowing three-person households to be allocated Type B flats; and two-person households to be allocated Type A flats. Following paragraph (a) above, three-person households may in particular ask for the same treatment;
- (c) if all applicants are to be housed to flats that meet the upper limit of the household size, since the overall supply has not changed, this approach would have spill-over effect on applicants of other household sizes and would ultimately reduce the supply of flats for allocation to one-person applicants. At present, apart from reserving not more than 2 200 units annually for allocation to non-elderly one-person applicants under the Quota and Points

¹ Taking into account past experience in handling tenants' requests and operational considerations, HD generally adopts the lower limit of the household size as benchmark for allocation of newly completed PRH flats. In other words, applicants who meet the minimum household size of the relevant flat will be allocated with the flat. This approach has taken into consideration the fact that there is often family growth after tenants have moved in.

System, Type A flats are mainly allocated to elderly one-person applicants. If two-person households are also allocated Type A flats, the number of units available for allocation to elderly one-person applicants will reduce, and may affect the average waiting time (AWT) target of two years for elderly one-person applicants²;

- (d) if applicants are to be housed to flats that meet the upper limit of the household size, HA may either adopt a unified approach for all applicants, or allow applicants to choose. If applicants are allowed to choose, since they may change their minds at any time while awaiting flat allocation, this would pose serious problems in terms of operation. As at end-September 2016, about 136 500 family applicants with household size of two or more persons were waiting for PRH. For the sake of fairness, HD would need to ask each of them in writing to indicate whether they would like to accept allocation of a smaller flat. It is also difficult to estimate the number of applicants who will opt for a smaller flat. Apart from policy consideration, there are immense difficulties in implementing this option;
- (e) if a unified standard is set by HA, some applicants may object. As a matter of fact, HA had once tried out allocation based on the upper limit of household size in certain blocks of four newly completed estates (Lei Yue Mun Estate, Ching Ho Estate, Shek Lei (II) Estate and Shek Pai Wan Estate) in 2006-07. At that time, due to a drop in the supply of new flats, HD adopted a contingency approach and arranged allocation based on the upper limit of household size, i.e. a flat suitable for allocation to three to four persons were allocated to four-person households. However, this had invited many complaints and this allocation method was not extended to other newly completed estates; and
- (f) the above options would lead to an increase in the number of tenants requesting for transfer to larger flats due to family growth.

Supply and allocation of large flats

15. The supply of new Type C and Type D flats will increase in the coming years. According to the estimate as at September 2016, during the

² As at end-September 2016, the AWT for elderly one-person applicants was 2.4 years.

five-year period from 2016-17 to 2020-21, the estimated total PRH production by HA is about 70 700 flats, of which 24% are Type D flats (with an IFA of about 35 m², suitable for allocation to four to five persons). The waiting time of four-person and five-person households would improve when more new Type D flats are completed.

16. Besides, a more generous approach was adopted in setting the allocation range of some of the PRH flats (mainly Harmony Blocks) completed in early years³. Also, during the cessation period of the Home Ownership Scheme (HOS), some HOS/Private Sector Participation Scheme (PSPS) flats (e.g. Concord and New Cruciform blocks) were converted to PRH flats. Given the relatively small demand for large flats at that time due to the relatively small number of applicants with large family size, the then Rental Housing Committee set a rather generous allocation range for these flats. Take Ko Cheung Court as an example, a three-bedroom flat with IFA of 45.79 m² was set for allocation to four to five-person households. However, under current standard, this flat is suitable for allocation to six-person households.

17. In view of the current tight supply of large flats, an option which can be considered is to revise the allocation standard of PRH flats completed in early years, as well as flats converted from HOS/PSPS flats by adopting the current principle of not less than 7 m² IFA per person as the allocation standard for all these flats in future. By doing so, more of such recycled flats can be used for allocation to larger families. When more of such recycled flats become available for allocation to applicants with household size of six persons or above, the need to use two adjacent new flats (e.g. using a Type C flat and a Type D flat to house an eight-person household) to house large families will reduce, thus releasing more Type D flats for allocation to four-person households.

18. SHC will further discuss this subject at its next meeting.

³ For instance, the allocation range of a flat with IFA of about 32 m² to 34 m² completed in the past was set for allocation to three to four-person households.

Appendix

Distribution of waiting time of general applicants who had waited for PRH for over three years and without any flat offer as at end-June 2016

(Extract from SHC Paper “Special Analysis of the Housing Situation of General Applicants for PRH as at end-June 2016”
(SHC 52/2016))

| District choice | Waiting Time | Household size | | | | | Total |
|-----------------|----------------|----------------|--------|--------|--------|-------|--------|
| | | 1-P* | 2-P | 3-P | 4-P | 5-P+ | |
| Urban | >3 - ≤ 4 years | 280 | 1 600 | 760 | 340 | 190 | 3 200 |
| | >4 - ≤ 5 years | 30 | 1 400 | 1 900 | 810 | 310 | 4 500 |
| | >5 years | 20 | 660 | 2 800 | 3 700 | 1 000 | 8 200 |
| | Subtotal | 320 | 3 700 | 5 400 | 4 900 | 1 500 | 15 800 |
| Extended Urban | >3 - ≤ 4 years | 40 | 6 800 | 5 400 | 2 700 | 510 | 15 300 |
| | >4 - ≤ 5 years | 10 | 4 200 | 4 100 | 2 700 | 610 | 11 500 |
| | >5 years | <5 | 20 | 800 | 2 200 | 680 | 3 700 |
| | Subtotal | 50 | 11 000 | 10 300 | 7 500 | 1 800 | 30 600 |
| New Territories | >3 - ≤ 4 years | 60 | 2 600 | 2 200 | 1 200 | 260 | 6 300 |
| | >4 - ≤ 5 years | 10 | 1 400 | 1 900 | 1 500 | 380 | 5 200 |
| | >5 years | 10 | 20 | 170 | 1 700 | 360 | 2 200 |
| | Subtotal | 70 | 4 000 | 4 300 | 4 400 | 990 | 13 700 |
| Islands | >3 - ≤ 4 years | 0 | 50 | 20 | 10 | <5 | 80 |
| | >4 - ≤ 5 years | 0 | 10 | <5 | 10 | <5 | 30 |
| | >5 years | <5 | 0 | 0 | 10 | <5 | 10 |
| | Subtotal | <5 | 60 | 20 | 30 | 10 | 110 |
| Overall | >3 - ≤ 4 years | 370 | 11 000 | 8 400 | 4 200 | 950 | 24 900 |
| | >4 - ≤ 5 years | 50 | 7 000 | 7 900 | 5 000 | 1 300 | 21 300 |
| | >5 years | 20 | 700 | 3 700 | 7 600 | 2 000 | 14 100 |
| | Total | 440 | 18 700 | 20 000 | 16 800 | 4 300 | 60 200 |

* Mainly applicants under the Single Elderly Persons Priority Scheme.

** Figures may not add up to total due to rounding. Values of one thousand or above are rounded to the nearest hundred and values below one thousand are rounded to the nearest ten.

Refining the “Well-off Tenants Policies”

Existing Policies

The Hong Kong Housing Authority (HA)’s Housing Subsidy Policy (HSP) and the Policy on Safeguarding Rational Allocation of Public Housing Resources (SRA) are commonly referred to as the “Well-off Tenants Policies”. After living in public rental housing (PRH) for ten years, tenants are required to declare their income biennially. Those with household income equivalent to two to three times of the PRH income limits (PRHILs) are required to pay 1.5 times net rent plus rates. Those with household income exceeding three times of the PRHILs are required to pay double net rent plus rates. Households paying double net rent plus rates have to declare their assets at the next declaration cycle and thereafter on a biennial basis. Households exceeding the prescribed income and asset limits (income exceeding three times of the PRHILs and asset exceeding 84 times of the PRHILs) are required to vacate their flats. They may apply for a fixed-term licence to stay in PRH for a period of not more than 12 months if they have a temporary housing need, during which a licence fee equivalent to the double net rent plus rates or market rent, whichever is higher, is charged.

2. Households (a) whose members are all aged 60 or above; or (b) with all members receiving Comprehensive Social Security Assistance (CSSA); or (c) who are on shared tenancies are exempted from the “Well-off Tenants Policies”.

Discussion and decisions of HA’s Subsidised Housing Committee

3. The Long Term Housing Strategy Steering Committee and the Audit Commission respectively recommended in 2013 that HA should review the “Well-off Tenants Policies” in order to further ensure the rational allocation of limited public housing resources. To follow up with the recommendations, HA’s Subsidised Housing Committee (SHC) examined the “Well-off Tenants Policies” in October 2014 and considered various possible options to refine the policies. Since each option had its own merits and downside, SHC considered that more thorough discussion was needed. No decision was made then.

4. In light of the increasing demand for PRH, SHC considered that

while making the best efforts to increase PRH supply, we should at the same time examine ways to better utilise PRH resources to ensure that efforts would be focused on allocating PRH resources to those with more pressing housing needs. SHC endorsed several principles in refining the “Well-off Tenants Policies” at its meeting of 31 October 2016, and subsequently endorsed the following specific amendments to the “Well-off Tenants Policies” at its meeting of 9 December 2016 -

- (a) PRH tenants with household income exceeding five times of PRHILs, or with assets exceeding 100 times of PRHILs should vacate their flats;
- (b) tenants with private domestic property ownership in Hong Kong should vacate their flats, irrespective of their levels of income or assets;
- (c) for tenants who do not have private domestic property ownership in Hong Kong and whose household income or assets do not exceed the levels in (a) above, if their household income is equivalent to two to three times of the PRHILs, they will still be required to pay 1.5 times net rent plus rates; if their household income is equivalent to three to five times of the PRHILs, they will be required to pay double net rent plus rates. Households that are required to vacate their PRH flats but have a temporary housing need may apply for a fixed-term licence to stay in PRH for a period of not more than 12 months, during which a licence fee equivalent to the double net rent plus rates or market rent, whichever is higher, is charged;
- (d) after living in PRH for ten years, tenants will have to declare both their income and assets in the biennial declarations, including whether they own any private domestic property in Hong Kong. If tenants choose not to declare their household income or assets, they will need to vacate their flats. Even though tenants with less than ten years’ residence do not need to declare their income and assets, the Housing Department (HD) will carry out investigation upon receipt of complaints. Those found to own private domestic property in Hong Kong will need to vacate their flats, irrespective of their length of residence in PRH;
- (e) households whose members are all aged 60 or above, or with all members receiving CSSA, or who are on shared tenancies will continue to be exempted from the “Well-off Tenants Policies”; and

- (f) implementing the revised “Well-off Tenants Policies” starting from the declaration cycle in October 2017.

5. In addition, SHC endorsed consequential amendments to other arrangements which currently adopt the same income/asset limits and relevant criteria as the “Well-off Tenants Policies”. They include the Policy on Grant of New Tenancy (GNT)¹, tenancy management arrangements² and arrangements involving additional PRH resources³, as well as arrangements in handling applications for addition of household members. Regarding application for addition of household members, in future, for addition of a tenant’s spouse, or the spouse and children under the age of 18 of a married offspring of the tenant (provided that the married offspring is an authorised member under the tenancy), the arrangement will be aligned such that the households concerned will be required to comply with both the no-domestic-property requirement and the income and asset limits under the refined “Well-off Tenants Policies”.

SHC’s considerations

Income limits

6. In the course of setting the new income limit for the “Well-off Tenants Policies”, SHC made reference to the results of the General Household Survey conducted by the Census and Statistics Department (C&SD) in the second quarter of 2016. If the income limit is pegged at four times of the PRHILs, PRH households with such a level of income are within the top 10% households in terms of income across different household sizes in Hong Kong. If the income limit is pegged at five times of the PRHILs, PRH households with such a level of income are within the top 7% households in terms of income across different household sizes in Hong Kong. A comparison of the relevant income limits and distribution of Hong Kong’s household income is as follows -

¹ According to the GNT policy, upon the death or moving out of a principal tenant, if there is no surviving spouse, a new tenancy may be granted to other authorised family members living in the PRH flat, provided that the prescribed limits under the “Well-off Tenants Policies” can be met.

² Including the Territory-wide Overcrowding Relief Transfer exercise, the Living Space Improvement Transfer Scheme and transfer of tenants occupying converted one-person flats.

³ Including household splitting and divorce cases.

| Household Size | 2016-17 PRHILs (per month) | Four times of the 2016-17 PRHILs | | Five times of the 2016-17 PRHILs | |
|-------------------|----------------------------|----------------------------------|--------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------|
| | | Income Limits (per month) | Within the following top % of Hong Kong's household income distribution* | Income Limits (per month) | Within the following top % of Hong Kong's household income distribution* |
| 1 Person | \$10,970 | \$43,880 | 10% | \$54,850 | 7% |
| 2 Persons | \$16,870 | \$67,480 | 10% | \$84,350 | 6% |
| 3 Persons | \$22,390 | \$89,560 | 5% | \$111,950 | 3% |
| 4 Persons | \$26,690 | \$106,760 | 6% | \$133,450 | 4% |
| 5 Persons | \$30,900 | \$123,600 | 10% | \$154,500 | 6% |
| 6 Persons or more | ≥ \$34,690 | ≥ \$138,760 | 8% | ≥ \$173,450 | 6% |

* Source : General Household Survey for April to June (Second Quarter) 2016, C&SD

7. Take a four-person household as an example, household income at four times of the PRHILs is \$106,760 while household income at five times of the PRHILs is \$133,450. PRH households with such a level of income are within the top 6% and 4% of four-person households in terms of income in Hong Kong respectively. According to the statistics of the Rating and Valuation Department (RVD), the rent of a private domestic flat with saleable area (SA) of 40 m² only accounts for about 8.6% to 14.1% of the income of a four-person household with income at four times of the PRHILs. For a four-person household with income at five times of the PRHILs, the rent only accounts for about 6.9% to 11.3% of its household income –

| | Hong Kong Island | Kowloon | New Territories |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|-----------------|
| (a) Average rents of Class B private domestic units (40 m ² to 69.9 m ²) in the third quarter of 2016 (\$/m ² per month) (provisional figures) ** | \$377 | \$311 | \$230 |
| (b) Average rent of a 40 m ² SA flat calculated based on (a) (monthly rent) | \$15,080 | \$12,440 | \$9,200 |
| (c) % of rent to income for a four-person household at four times of the PRHILs (\$106,760) | 14.1% | 11.7% | 8.6% |
| (d) % of rent to income for a four-person household at five times of the PRHILs (\$133,450) | 11.3% | 9.3% | 6.9% |

** Source : Hong Kong Property Review Monthly Supplement (November 2016), RVD

8. SHC considered that tenants with household income at four times of the PRHILs are within the top 10% households in terms of income across different household sizes in Hong Kong. These households should be relatively more capable to take care of their own housing needs without the need for HA to subsidise them with public resources. However, since the “two pillars” principle will be revised such that tenants with either income or assets exceeding the relevant threshold will need to vacate their flats, SHC considered that a more lenient approach should be adopted, and hence decided to set the income limit at five times of the PRHILs.

Asset limit

9. The current asset limit (at 84 times of the PRHILs) was worked out by dividing the average discounted price of a three-bedroom Home Ownership Scheme (HOS) flat (with an SA of about 60 m²) in the urban area prior to the termination of HOS in 2002 by the then PRHIL of a four-person household. As HOS flats launched for pre-sale in 2014 and 2016 are mainly flats with an SA of about 40 m² located in the Extended Urban Area and the New Territories, it is difficult for HA to update the asset limit using the exact old formula. On the other hand, in deriving the HOS income and asset limits for White Form (WF) applicants, one of the parameters is a reference flat in the private sector, which is ten years’ old with an SA of 40 m² in the Extended Urban Area or the New Territories.

10. For reference purpose, the assessed average market value for Ping Yan Court in Yuen Long in the Sale of HOS 2016⁴ is \$76,000 per m² of SA. By applying a 30% discount, the average selling price is \$53,200 per m² of SA. Based on this discounted selling price, the average selling price of a flat with an SA of 40 m² would be about \$2,130,000, and the asset limit would be at around 80 times of the PRHILs (calculated using the 2016-17 PRHIL of a four-person household at \$26,690). As for Ka Shun Court in Sha Tin, it accounts for about 9% of the flats sold under the Sale of HOS 2016. By applying a 30% discount, the average selling price of a flat with an SA of 40 m² would be about \$2,940,000, and the asset limit would be at around 110 times of the PRHILs (calculated using the 2016-17 PRHIL of a four-person household at \$26,690). Apart from HOS, SHC also examined the case of King Tai Court, the Green Form Subsidised Home Ownership Pilot Scheme (GSH) project at San Po Kong with pre-sale launched in October 2016. The assessed market value of the development is \$101,500 per m² of SA. By

⁴ The Sale of HOS 2016 includes Ping Yan Court in Yuen Long and Ka Shun Court in Sha Tin. Ping Yan Court accounts for about 91% of the flats sold under the Sale of HOS 2016.

applying a 40% discount, the average selling price is \$60,900 per m² of SA. Adopting the same method of calculation above, the asset limit would be at around 91 times of the PRHILs.

11. SHC considered that while it is not HA's policy to ensure that "well-off tenants" can achieve home ownership before vacating their PRH flats, households with assets at 80 times of the PRHILs could nevertheless be able to purchase subsidised sale flats recently launched by HA. Since the "two pillars" principle will be revised such that tenants with either income or asset exceeding the relevant threshold will need to vacate their flats, SHC considered that a more lenient approach should be adopted, and hence decided to set the asset limit at 100 times of the PRHILs.

12. Using the 2016-17 PRHILs, the revised net asset limits are as follows -

| Household Size | 2016-17 PRHILs (per month) | 100 times of 2016-17 PRHILs |
|-----------------------|---------------------------------------|------------------------------------|
| 1 person | \$10,970 | \$1,100,000* |
| 2 persons | \$16,870 | \$1,690,000* |
| 3 persons | \$22,390 | \$2,240,000* |
| 4 persons | \$26,690 | \$2,670,000 |
| 5 persons | \$30,900 | \$3,090,000 |
| 6 persons | \$34,690 | \$3,470,000 |
| 7 persons | \$39,560 | \$3,960,000 |
| 8 persons | \$43,980 | \$4,400,000 |
| 9 persons | \$48,270 | \$4,830,000 |
| 10 persons or more | \$52,440 | \$5,250,000 |

* The net asset limits for households at sizes of one-person, two-person or three-person with all members aged over 55 are the same as that of a four-person household, i.e. \$2,670,000.

Requiring tenants with private domestic property ownership in Hong Kong to vacate their PRH flats

13. SHC also considered that tenants with private domestic property ownership in Hong Kong should vacate their PRH flats, irrespective of their levels of income or assets. To implement the suggestion, SHC agreed to adopt the same definition as that under the eligibility criteria for PRH application and purchase of HOS flats using WF status, i.e. if any household member in the tenancy –

- (a) owns, co-owns or has an interest in any domestic property in Hong Kong; or

- (b) has entered into any agreement to purchase any domestic property in Hong Kong; or
- (c) holds more than 50% of shares in a company which owns, directly or through its subsidiaries, any domestic property in Hong Kong,

the tenant concerned will need to vacate his/her PRH flat.

Other relevant issues

14. Since PRH tenants with income or assets exceeding the relevant threshold will be required to vacate their PRH flats under the refined “Well-off Tenants Policies”, SHC considered that special arrangements should be made under the amended “Well-off Tenants Policies” to address the housing needs of families with disabled members who have received compensation due to injuries sustained at work or in other accidents. Under the existing policy, compensation for loss of earning power due to injuries sustained at work or in traffic and other accidents may be deducted from the value of tenants’ assets. In addition, CSSA households (including those with disabled members) are exempted from income and asset declarations under the “Well-off Tenants Policies”. The above arrangements will continue to be in place.

15. SHC was concerned that households with irregular income, bonus or commission may need to vacate their flats if their income exceeds the relevant limit due to a sudden increase in income in the month of declaration. Based on the arrangement for income calculation under the current “Well-off Tenants Policies”, irregular income is apportioned over the service period. On the other hand, if tenants’ household income has dropped below the prescribed income limit for a continuous period of three months, or if the income decrease is of a permanent nature (e.g. due to death/deletion of household member(s)), they may apply for payment of rent at a lower level or grant of new tenancy (applicable to those staying in PRH under a fixed-term licence). The afore-mentioned arrangement can mitigate the impact on tenants due to fluctuations in income, and will continue to be in place.

16. In addition, SHC was also concerned that families with members who have received lump-sum retirement benefits may need to vacate their flats as their assets may exceed the proposed new asset limit, even though they may no longer have regular income in future to make ends meet. It should be noted that the “Well-off Tenants Policies” are not applicable to households whose members are all aged 60 or above. As for other households, the

revised asset limit (at 100 times of PRHILs) will be higher than the existing one (84 times) and has taken into consideration the ability of households in taking care of their own housing needs. In addition, having regard to the need of those approaching retirement age to rely on their savings and assets to sustain their future living, the asset limits under the existing “Well-off Tenants Policies” for one-person, two-person or three-person households with all members aged over 55 are the same as that of a four-person household. This arrangement will continue to be in place.

17. Under the revised “Well-off Tenants Policies”, if tenants exceed the relevant income or asset limits, HD will issue notice to quit to the households concerned. Under Section 20(1) of the Housing Ordinance (Chapter 283), the tenants issued with a notice to quit may appeal to the Appeal Panel (Housing) appointed by the Chief Executive not later than 15 days after the date on which the notice to quit was issued. The Appeal Panel may confirm, amend, suspend or cancel the notice to quit. The above appeal mechanism will continue to be in place.

Way Forward

18. The income and asset limits under the revised “Well-off Tenants Policies” are different from the existing ones, and not all tenants are required to declare private domestic property ownership in Hong Kong under the existing policies. It is therefore difficult for HA to estimate the number of PRH flats that may be recovered as a result of the revised policies. Nonetheless, PRH flats are precious public resources. HA has to ensure that they are allocated in a fair and reasonable manner to those with more pressing housing needs.

19. To ensure that PRH tenants are aware of the revised “Well-off Tenants Policies”, HD will distribute information relating to the “Well-off Tenants Policies” to new tenants upon signing of the tenancy agreement. For existing tenants, they will be informed of the revised “Well-off Tenants Policies” through various existing channels.

20. SHC considered that the implementation arrangements for the revised “Well-off Tenants Policies” should be handled with care. In light of SHC’s comments, HD will further examine the implementation details and submit supplementary information on the implementation arrangements to SHC.

**Introduction of a frozen period
for general applicants currently living in PRH**

Background

At the meeting held on 31 October 2016, the Housing Authority (HA)'s Subsidised Housing Committee (SHC) considered that a frozen period should be imposed on those general applicants currently living in PRH to reflect their relatively lower priority as compared to applicants who are living in private rental accommodation. This annex sets out the implementation options.

Implementation options which may be considered

2. Under the existing policy, non-elderly one-person applicants currently living in PRH will be deducted 30 points under the Quota and Points System (QPS). Since a QPS applicant will earn one additional point for each month he has waited, deduction of 30 points will roughly mean deferring the relevant application for about 30 months (or about 2.5 years). As it has always been the policy to accord general applicants higher priority over non-elderly one-person applicants, if a frozen period is to be introduced for general applicants currently living in PRH, one year will be a suitable duration since this should be able to strike a balance amongst different policy considerations. Specifically, the relevant applications will be frozen by deferring their registration dates by one year. For example, assuming a general applicant currently living in PRH is registered in January 2017, if a frozen period of one year is imposed, the application will be deemed to be registered in January 2018 for the purpose of determining his priority for PRH allocation.

3. As for specific implementation arrangements, there are three options for consideration –

- (a) Option 1: if one of the household members in the application is currently living in PRH, the application will be frozen for one year; or
- (b) Option 2: if over half of the household members in the application are currently living in PRH, the application will be frozen for one year; or

- (c) Option 3: if all household members in the application are currently living in PRH (whether from the same or from different PRH tenancies), the application will be frozen for one year.

4. There are pros and cons for each of the above options. For example, Option 1 is simple and easy to understand. It is also easy to assess. However, it may be too stringent, and may fail to take into account housing needs arising from marriage or family reunion. Compared with Option 1, Option 2 is less controversial and can better address changes in family circumstances (e.g. married persons who cannot be added into the current PRH tenancies may apply for PRH as a two-person family, and the application will not be affected by the new arrangement so long as one of them is not currently living in PRH). Nevertheless, experience indicates that family circumstances of applicants often change during the period from registration to allocation, and applicants will request for addition or deletion of family members from time to time. Moreover, estate offices handle tenants' requests for addition or deletion of household members on a daily basis, and such addition/deletion in tenancy will affect the proportion of household members currently living in PRH in the applications concerned. As the Housing Department needs to monitor on a continuous basis to ascertain whether such changes will result in the need for freezing the applications concerned for one year during the waiting period, it is very complicated in terms of implementation and may result in a lot of disputes. Option 3 should be the least controversial option and with strongest justifications as compared with Option 1 and Option 2. However, as this option also requires continuous monitoring of the applications to ascertain whether the applications need to be frozen for one year during the waiting period as a result of various changes in household members, its implementation also requires substantial manpower resources.

5. Irrespective of which option is chosen, the following will apply –

- (a) to avoid applicants deliberately evading the system at the time of registration, once an application is frozen, the frozen period imposed will not be adjusted or cancelled on account of any subsequent addition/deletion of household members in the application, or deletion of household members from the existing PRH tenancy;
- (b) even if an application needs not be frozen at the time of registration, if the application subsequently meets the criteria for freezing due to addition/deletion of household members; or addition of household members in a PRH tenancy, the application concerned will still need to be frozen for one year;

- (c) applications registered prior to the implementation date of the new frozen period arrangement will not be affected; and
- (d) applications under the “Single Elderly Persons Priority Scheme”, “Harmonious Families Priority Scheme” and “Elderly Persons Priority Scheme” will be exempted from the new frozen period arrangement. To prevent potential abuse of this exemption, if an application has been frozen for one year under the new arrangement in its capacity as an ordinary family application, even if the application subsequently switches to one under the “Harmonious Families Priority Scheme”, the frozen period imposed earlier will not be cancelled as a result.

6. Under the existing policy, applicants’ current type of accommodation is not taken into account. Therefore, HA does not have statistics on the number of applicants who are currently living in PRH but apply for another PRH unit through general family applications. For reference purpose, based on the results of the Survey on PRH Applicants 2016, among the 1 900 general applicants interviewed¹, 25% responded that they were currently living in PRH². As the survey did not ask the respondents about the type of accommodation of their family members listed on the PRH application forms, and applicants can adjust their family composition in their applications in response to any new initiatives, HA does not have specific statistics to assess the potential impact of the above three options at this stage. However, regardless of which option is adopted, it can bring out the important message that HA needs to focus efforts in allocating PRH resources to those with more pressing needs.

7. SHC will further discuss this subject at its next meeting.

¹ 3 000 PRH applicants were randomly selected for the 2016 Survey on PRH Applicants, of which 1 900 were general applicants (including 700 two-person family applicants). The overall response rate was 78%.

² The Survey only asked about the current type of accommodation of respondents. Respondents were not asked about the type of accommodation of other family members on their PRH application forms.

Under-occupation Policy

Background

It is the long-standing policy of the Housing Authority (HA) to require households with living space exceeding the prescribed under-occupation (UO) standards to move to another PRH flat of appropriate size. The current UO standards (see the table at paragraph 3 below) have been in effect since 1992. They are more generous than the PRH allocation standards in order to build in a margin to accommodate households who have had relatively less significant changes in their family size.

2. A review on the UO situation was triggered by a study of the Audit Commission conducted in 2006/07. The Audit Commission recommended HA to draw up a plan to tackle the UO problem in order of priorities, and to take enforcement actions against those households who refused to move to flats of appropriate size. Subsequently, HA started adopting a phased approach to handle UO cases in PRH estates with priority given to prioritised UO (PUO) households (previously known as “most-serious UO households”) who are living in flats with an internal floor area (IFA) exceeding the prescribed thresholds and without disabled or elderly family members aged 60 or above.

3. The UO policy has since been reviewed in 2010 and 2013. In brief, while the UO standards have remained unchanged, the PUO thresholds have been lowered from exceeding 35m² per person in 2007 to exceeding 34m² per person in 2010, and the thresholds for different household sizes were further tightened in 2013. The current standards are at the table below -

Current UO standards and PUO thresholds

| Household size | UO standards | PUO thresholds |
|----------------|------------------|------------------|
| | IFA exceeding | IFA exceeding |
| 1-person | 25m ² | 30m ² |
| 2-person | 35m ² | 42m ² |
| 3-person | 44m ² | 53m ² |
| 4-person | 56m ² | 67m ² |
| 5-person | 62m ² | 74m ² |
| 6-person | 71m ² | 85m ² |

Enhanced measures to tackle UO since 2013

4. In 2013, since the majority of PUO cases with a living density exceeding 34m² per person had been resolved, HA's Subsidised Housing Committee (SHC) endorsed enhanced measures to tackle UO cases. UO households with elderly members aged 60 or above but below 70 would be placed at the end of the UO list, and those with disabled members or elderly members aged 70 or above would be excluded from the UO list ("excluded UO households"). Besides, the PUO thresholds were also tightened; and PUO households would be given a maximum of three housing offers instead of four in their residing estates or an estate in the same District Council constituency for transfer. Their tenancies would be terminated if they refused to accept all the offers without acceptable reasons. New flats would be offered subject to the availability of resources, and domestic removal allowance (DRA) would be offered upon the transfer of UO and PUO households. SHC also agreed to review the effectiveness of these measures after three years of implementation.

5. In October 2014, Members further approved additional incentives for encouraging early transfer. PUO households would be given a rent waiver of three months, two months or one month if they accepted correspondingly the first, second or third housing offer. For non-PUO households with living space exceeding the UO standards but not the PUO thresholds or exceeding the PUO thresholds but with family members aged 60 or above but below 70, and for excluded UO households, DRA and new flats would also be offered if they choose to transfer to smaller flats, subject to the availability of resources. Members also endorsed on compassionate grounds to allow a standard stayput period of one year to PUO households suffering from decease of family member to allow reasonable time for their recovery from emotional/psychological stress, and to continue adopting a reasonable and considerate approach in considering on individual merits the stayput request for PUO tenants waiting for reunion with family members from the Mainland.

Latest figures

6. Key figures summarising the latest situation are at the **Appendix**. In short, as at March 2013, there were 7 580 PUO cases, and during the 3.5 years between April 2013 to September 2016 –

- (a) cases increased by 6 400, or 1 830 per year;
- (b) the Housing Department (HD) resolved 8 290 cases, of which

3 612 were transferred to a smaller flat, and 928 resulted in net recovery of flats;

- (c) there was a net reduction of 1 890 cases (8 290 - 6 400);
- (d) the number of cases at September 2016 was therefore 5 690 (7 580 - 1 890).

Standards

7. On average, the living density of the 5 690 PUO households is 30.3m² per person. This is 2.3 times of the average living density of all PRH households, and 4.3 times of the allocation standard of 7m² per person. In addition, PRH resources are insufficient to meet the demand. Accordingly, there is no justification for relaxing the PUO thresholds.

8. As to whether the current PUO thresholds should be tightened, the crux is on the capacity to transfer PUO tenants, which is limited mainly by the number of smaller units that HA can use to rehouse PUO cases. The limited supply of small units is due to the competing demand for such smaller units from PRH applicants. In the 2016 Estimated PRH Allocation approved by SHC in June 2016, only 1 000 units were set aside for PUO transfers. This supply will unlikely increase significantly in the next few years. With this supply of smaller units, it will take HD some years to process the current stock of PUO cases of 5 690 plus new cases that will arise. Under these circumstances, HD does not propose to tighten the PUO thresholds.

Households with elderly members aged 60 or above

9. Currently, UO households with elderly members aged 60 or above but below 70 are placed at the end of the UO transfer list. HA will not take immediate actions against them. In view of the challenges in tackling UO and PUO cases mentioned in the above paragraphs, HD considers that focus and priority should continue to be on the handling of existing PUO cases, as well as those newly identified PUO households in the coming years. Given the number of PUO cases, households with members aged 60 or above but below 70 would unlikely be affected if they are continued to be put at the end of the UO list. Coupled with the tight supply of PRH, HA must continue to remain vigilant in ensuring the rational use of PRH resources. Therefore, HD considers that UO households with members aged 60 or above but below 70 should continue to be placed at the end of the UO list.

Same treatment to all rehousing categories

10. Upon lowering of PUO thresholds from 35m² to 34m² in 2010, some of the tenants originated from two-person families in redevelopment/clearance blocks who were rehoused under a relaxed allocation policy became PUO households upon deletion of a family member. These tenants formed several concern groups and requested persistently to HA for exercising discretion to allow ex-tenants of redevelopment/clearance blocks who had become UO households to continue to live in their present flats. However, they receive little support from the community which all along has high expectation on HA's rational use of public housing resources in addressing the housing needs of PRH applicants. Under the existing policy, all PRH tenants, irrespective of their rehousing categories, are subject to the same set of housing policies.

11. To maintain policy consistency, HD considers that the same treatment should be applied to all rehousing categories under the UO policy. Estate staff will exercise flexibility on individual cases with compassionate or justifiable grounds, which was reaffirmed by SHC in October 2014.

Other arrangements

12. Drawing reference from experience, HD considers that the following arrangements should continue to be maintained –

- (a) giving a maximum of three housing offers to PUO households, while flexibility should be exercised for cases with individual merits;
- (b) allowing a stayput period of one year to PUO households on grounds of decease of family member, and considering on individual merits the stayput request for PUO tenants waiting for reunion with family members from the Mainland; and
- (c) granting DRA and opportunity to transfer to new flats (subject to the availability of resources) to UO and PUO households, as well as rent waiver to PUO households, with a view to encouraging early transfer of the households and hence expediting the recovery of larger PRH flats for re-allocation.

13. SHC will further discuss this subject at its next meeting.

Appendix

Overall situation of PUO cases over the past 3.5 years (from 1.4.2013 to 30.9.2016)

| | No. of PUO cases | |
|----------------------------------------------------|------------------|--------------------------|
| As at 31.3.2013 | 7 580 | |
| As at 30.9.2016 | 5 690 | |
| New PUO cases identified during the past 3.5 years | 6 400 | (1 830 per year) |
| PUO cases settled during the past 3.5 years | 8 290 | (average 2 370 per year) |
| Increase in PUO cases during the past 3.5 years | 84% | (6 400 / 7 580) |
| Average increase of PUO cases per year | 24% | |

Table 1

| Number of PUO cases handled (from 1.4.2013 to 30.9.2016) | | | | | |
|------------------------------------------------------------------------------|-------------------------------------------------|------|-------|-------|-------|
| Transfer to smaller flats | Flats resided by PUO households before transfer | | | | |
| | 1-2P | 2-3P | 3-4P | 4-5P | Total |
| | 0 | 3 | 2 291 | 1 318 | 3 612 |
| Notice-to-quit/Self-surrender with flats recovered | 375 | | | | |
| Purchase of HOS flats | 553 | | | | |
| Total number of flats recovered | 3 612 + 375 + 553 = 4 540 | | | | |
| Others (e.g. addition of family members, disability, becoming elderly, etc.) | 3 745 | | | | |
| Total number of cases handled | 8 285 (say 8 290) | | | | |

Table 2

| Outstanding PUO cases (as at 30.9.2016) | | | | | | | |
|------------------------------------------------|----------|----------|----------|----------|----------|----------|----------------------|
| Household size | 1-Person | 2-Person | 3-Person | 4-Person | 5-Person | 6-Person | Total |
| No. of cases | 3 683 | 1 808 | 153 | 43 | 5 | 3 | 5 695 (say 5 690) |

No. of small household cases with one to two persons = 3 683 + 1 808 = 5 491 (say 5 490)