(Translation)

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20 March 2017

Mr Derek Lo
Clerk to Legislative Council Panel on Housing
Legislative Council Secretariat
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1 Legislative Council Road, Central
Hong Kong

Dear Mr Lo,

Income and Asset Limits for Public Rental Housing (PRH) for 2017/18

At the meeting of the Legislative Council Panel on Housing on 6 March 2017, Members discussed the findings of the review of PRH income and asset limits for 2017/18. The views of Members and the motion passed by the Panel, as well as the Housing Department's response, have been relayed to the Hong Kong Housing Authority's Subsidised Housing Committee (SHC). The relevant SHC paper is provided at **Annex 1** for Members' reference.

SHC noted Members' views and the motion, as well as the Department's response, and endorsed the PRH income and asset limits for 2017/18 at the meeting on 17 March 2017. The limits, to be effective from 1 April 2017, are set out at **Annex 2** for Members' reference.

Yours sincerely,

(Original Signed)

(Jerry CHEUNG)
for Secretary for Transport and Housing

Annex 1

PAPER NO. SHC 14/2017

Memorandum for the Subsidised Housing Committee of the Hong Kong Housing Authority

Review of Income and Asset Limits for Public Rental Housing for 2017/18 -

Views and Suggestions Expressed by Members of the Legislative Council Panel on Housing at the Meeting on 6 March 2017

PURPOSE

Further to the Hong Kong Housing Authority (HA)'s Subsidised Housing Committee (SHC) Paper No. SHC 12/2017 on the Review of Income and Asset Limits for Public Rental Housing (PRH) for 2017/18, this paper reports on the comments made by Members of the Legislative Council (LegCo) Panel on Housing on the findings of the review and the Department's response to these comments.

BACKGROUND

2. SHC considers the PRH income and asset limits in March every year. At the request of the LegCo Panel on Housing, we brief Panel Members on the review findings, and relay their views and suggestions for SHC's consideration.

VIEWS/SUGGESTIONS OF THE LEGCO PANEL ON HOUSING AND THE DEPARTMENT'S RESPONSE

3. The LegCo Panel on Housing discussed the review findings at its meeting on 7 March 2016. LegCo Members generally supported the review findings, but some Members were of the view that the level of statutory minimum wage (SMW) should be taken into account when reviewing the PRH income limits. Some Members were also concerned that raising the PRH income and asset limits would further increase the number of PRH applications, and considered that HA should further increase PRH supply. Furthermore, the Panel passed the following non-binding motion –

> "This Panel urges the Administration to review the established mechanism for arriving at the income limit by incorporating the level of SMW into the mechanism as reference so that grass-roots people are eligible for PRH application, and that more PRH should be built to expeditiously increase PRH supply."

4. Our response to the motion is presented in the ensuing paragraphs. Views/suggestions raised by Members and the Department's response are summarised at **Annex**.

Reviewing the mechanism for reviewing income limits and incorporating the level of SMW into the mechanism

5. Under the existing mechanism for reviewing PRH income limits, PRH income limits are derived using a household expenditure approach, which consists of housing costs and non-housing costs, plus a contingency provision. This approach adopts objective data as the basis of calculation to measure the total household income required to rent private accommodation comparable to PRH while also meeting other non-housing expenditure. Households with income and assets below the prescribed limits are deemed to be unable to afford renting private accommodation, and hence are eligible for PRH. SHC reviews the PRH income limits annually to keep them in line with the prevailing socio-economic circumstances.

6. During SHC's annual review of the PRH income limits, SHC will not only take into account the latest data on household expenditure, but will also consider the actual circumstances then and make adjustments where necessary. When reviewing the PRH income limits for 2011/12, in view of the implementation of SMW starting from 1 May 2011, SHC endorsed an increase in the contingency provision from the original 5% of the household expenditure by an additional 10% as a buffer. Hence, the contingency provision for that year was 15% of the household expenditure. The additional provision sought to provide a bigger buffer for low income families to cope with possible changes arising from the implementation of SMW. The contingency provision was subsequently reverted to 5% in the review for 2012/13.

7. Besides, SHC conducts review on the existing mechanism from time to time to ensure that the mechanism can reflect the latest social development and situation. In view of public concern about the impact of the implementation of SMW, SHC reviewed the mechanism for adjusting the PRH income limits in February 2013. The Committee considered that the current household expenditure-based mechanism could adequately reflect the

affordability of households in relation to private rental accommodation and other expenditure with a view to assessing their eligibility for PRH. SHC was also of the view that changes in income would be reflected in the changes in expenditure over time. Therefore, the current household expenditure-based mechanism has in fact taken into account the changes in income.

8. SHC was aware that the Census and Statistics Department (C&SD) updated the Housing Expenditure Survey (HES) every five years. Before the updating of the HES results, changes in income might not be reflected in the PRH income limits in a timely manner. In light of this, SHC decided to introduce the change in nominal wage index obtained through the Labour Earnings Survey conducted by C&SD as the income factor to reflect changes in income in a timely manner before the HES results were updated. The change in nominal wage index was considered to be a suitable yardstick to gauge changes in income of the PRH target group and to reflect the impact of SMW on income, because it covers occupational groups at non-managerial/professional levels (e.g. technical, clerical, service workers and craftsmen) who are most likely to be the potential applicants for PRH. Therefore, since 2013/14, the non-housing costs have been determined with reference to the latest HES results, with adjustments made according to the latest movement in the Consumer Price Index (CPI)(A)(excluding housing costs), or the change in the nominal wage index, whichever is higher.

9. As shown above, we have been updating the existing review mechanism for PRH income limits from time to time to reflect the latest situation in the society. The current household expenditure-based mechanism can reflect affordability in an objective manner, and has taken into account the implementation of SMW and its relevant adjustments.

10. SMW will be adjusted to $34.5 per hour starting from 1 May 2017. There are views that the monthly income of a two-person household with two working members, when earning an income at the new SMW level, will exceed the recommended PRH income limit for two-person households (i.e. $17,350) if each working member works for an average of 10 hours per day and 26 days per month. These households would then become ineligible for PRH. In this regard, SMW only stipulates the minimum wage per hour. The actual income earned by individual households depends on various factors, such as the number of working members, as well as the number of working hours and working days

of each member; and hence cannot be generalised [Note]. We cannot and should not make a direct comparison between the PRH income limits and SMW. On the other hand, as mentioned in paragraph 5 above, the PRH income limits are derived using a household expenditure-based approach. Household expenditure is assessed on a household basis rather than on an individual basis; and is calculated based on objective data. While it covers housing costs and non-housing costs of households of different sizes, it also takes into account other factors such as changes in income and inflation. In fact, SMW will increase by 6.2% from $32.5 per hour since 1 May 2015 to $34.5 per hour since 1 May 2017. The recommended PRH income limits, when implemented from 1 April 2017 onwards, will increase by an overall 13% when compared with the PRH income limits implemented two years ago (i.e. since 1 April 2015). This rate of increase is greater than that for SMW.

Increasing PRH supply and expeditiously increasing PRH production

11. We appreciate the keen public aspirations for increasing PRH supply. According to the Long Term Housing Strategy (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. The supply target is based on objective data of different demand components and serves as a planning guide for the Government to identify land for housing development.

12. As mentioned in the LTHS Annual Progress Report 2016, the Government has adopted 460 000 units as the total housing supply target for the ten-year period from 2017-18 to 2026-27. Based on the public/private split of 60:40 in the new housing supply, the target for public housing units is 280 000 units, including 200 000 PRH units. On the other hand, the total public housing production of HA and the Hong Kong Housing Society (HKHS) in the five-year period from 2016-17 onwards is about 94 500 units, comprising

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Note Nevertheless, we understand that the Mandatory Provident Fund Schemes Authority calculates the Minimum Relevant Income Levels under the Mandatory Provident Fund (MPF) on the basis that each working member works for 9 hours per day and 26 days per month. If we adopt this benchmark as reference, a two-person household with two working members earning an income at SMW level (i.e. $34.5 per hour from 1 May 2017 onwards) will have a monthly income of $16,146 (i.e. $34.5 per hour x 9 hours per day x 26 days per month x 2 persons). Such income amount is lower than the proposed 2017/18 PRH income limit for two-person households (i.e. $17,350; or $18,263 after including the MPF contribution). In other words, a two-person household with two working members earning an income at SMW level should be able to meet the 2017/18 PRH income limit for two-person households.

71 900 PRH units and 22 600 subsidised sale flats. The above total housing production is showing a steady increase when compared with the estimated housing production figures of the previous four five-year periods.

13. Despite our best efforts in increasing housing supply, it takes time for both site identification and housing production. Coupled with the fact that progress of individual projects is often affected by factors beyond our control (such as the time needed for the Town Planning Board's deliberation on rezoning, opposing views from the community, etc.), we are facing immense difficulties in increasing public housing supply. In order to meet the demand for PRH, HA will continue to work with relevant Government departments to identify land for developing PRH, including increasing the development density of developed areas, rezoning existing land and opening up new development areas, with a view to increasing housing supply in the short, medium and long term. These measures to increase land supply are not easy to realise and require the community as a whole to render its support and accept the necessary trade-offs.

14. After SHC's discussion of the review findings, we will relay the decision on the PRH income and asset limits for 2017/18 to the LegCo Panel on Housing for their information.

INFORMATION

15. This paper is issued for Members' information.

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<u>**Annex**</u>

Views/Suggestions of Members of the LegCo Panel on Housing on the Review Findings and the Department's Response

Views/Suggestions of Members of the LegCo Panel on Housing on the Review Findings	**The Department's Response**
1. The proposed increase in PRH income and asset limits will increase the number of eligible applicants for PRH, which will further increase the average waiting time (AWT) [Note 1] for PRH applicants. To ensure that the housing demand can be met, HA should expeditiously increase PRH supply and the Government should provide more land for public housing construction.	• If the proposed PRH income limits are adopted, based on the results of C&SD's General Household Survey as at the fourth quarter of 2016, and purely using household income as a base for estimation, some 153 000 non-owner occupied households living in private housing would be eligible for PRH. However, it should be noted that this figure only gives a snapshot of the position as at the fourth quarter of 2016. It may be of limited reference value and should be interpreted with caution. The number of non-owner occupied households in the private sector will change over time, and so will the proportion of such households who are eligible for PRH. Households meeting the income limits may not necessarily be able to meet other eligibility criteria and this figure has not taken into account the assets of the households concerned. Eligible households may choose not to apply for PRH while some eligible households may have already done so. Besides, apart from existing non-owner occupied households, members of existing households from PRH, owner-occupier

Note 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; 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. As at end-December 2016, the AWT of general applicants was about 4.7 years.

Views/Suggestions of Members of the LegCo Panel on Housing on the Review Findings	The Department's Response
	households of Home Ownership Scheme (HOS) and owner-occupier households in the private sector may also form new households and apply for PRH. • As pointed out in paragraph 12 of the paper, the Government has adopted 460 000 units as the ten-year housing supply target for 2017-18 to 2026-27, comprising 200 000 PRH units and 80 000 subsidised sale units. At present, there is still a gap between the land available for public housing construction and the supply target. The Government will continue to increase housing land supply in the short, medium and long term through a multi-pronged approach. • Apart from increasing PRH production, HA will also recover PRH units from surrender of flats by sitting tenants and enforcement actions against abuse of PRH resources. At present, there is a net recovery of about 7 000 PRH units annually. HA may also recover more units from tenants who choose to buy new HOS units as they come on stream. The above should help address the housing needs of those who are unable to afford private rental accommodation.
2. When assessing the housing costs in the review of PRH income limits, the rents of sub-divided flats (SDUs) in the market should be taken into account to keep abreast of the market situation.	• Housing costs are calculated based on the average unit rent of private flats sampled in C&SD's survey, multiplied by the average space allocated to PRH applicants in the past three years. The survey covers households residing in

	various kinds of units, including those residing in SDUs. • In fact, the review mechanism of PRH income limits has already taken into account the situation of small households whose average unit rent may be higher. To this end, in the assessment of PRH income limits for one-person and two-person households, the respective differential unit rent or the overall average rent, whichever is higher, is adopted. For households of three persons and above, the overall average rent will be adopted. • For reference, according to the results of C&SD's Thematic Household Survey on the housing conditions of SDUs in 2015, the median monthly rental payment of households living in SDUs and having to pay rent was $4,200. This amount was lower than the housing costs of different household sizes for renting private accommodation comparable to PRH under the 2017/18 review of PRH income limits. For example, in the 2017/18 review, the housing cost for one-person households is $5,245, which is about 25% higher than the median monthly rental payment of $4,200 for SDUs. The housing costs for households with two persons, three persons and four persons are $7,314, $9,357 and $10,990 respectively.
3. In view of the high rents for private accommodation and the lengthening AWT for PRH, the Government should consider providing rent subsidy to those who are waiting for PRH allocation.	• The Government is aware of the impact brought about by the increasing rents on tenants living in private accommodation. Since market supply is still limited, landlords may increase the rents if rent subsidy is provided to

	PRH applicants. The rent subsidy provided by the Government may eventually become additional rents and may not actually benefit the tenants. Therefore, continuous increase in housing supply remains the fundamental solution to the hiking property prices and rents caused by supply-demand imbalance. • For those who have pressing need for PRH, they can apply for Compassionate Rehousing upon recommendation of the Social Welfare Department. They can also apply under the Express Flat Allocation Scheme to achieve earlier PRH allocation. • Besides, the Government has put in place a series of measures and assistance programmes to meet the needs of low-income families. For instance, those who are unable to support themselves financially can apply for assistance under the Comprehensive Social Security Assistance Scheme to meet their basic needs.
4. To meet the housing needs of PRH applicants who have been waiting for allocation for a long time, whether HA would consider releasing the potential of HOS units, including letting of HOS flats with premium not yet paid to these PRH applicants. The rents received by these HOS owners should be shared with HA according to the ratio of premium not yet paid.	• In addition to building more PRH units, the LTHS also advocates the provision of more subsidised sale units, expanding their forms and facilitating their market circulation, with a view to enhancing the housing ladder. To this end, under the existing mechanism, HA and HKHS have both put in place a Secondary Market arrangement to allow owners of subsidised sale flats (including HOS owners) to sell their flats to households with Green Form status without the need to settle the premium payment. Besides, HA

	introduced the Green Form Subsidised Home Ownership Pilot Scheme (GSH) by putting up PRH development for sale to Green Form applicants under a pilot scheme. Prices were set at a level lower than those of HOS flats. Pre-sale of the first GSH development located in San Po Kong was launched in October 2016, and all flats were sold by mid-February 2017. The above schemes have provided PRH tenants and households with Green Form status with different channels for home ownership, thereby recovering more PRH units for allocation to people with pressing needs for PRH. • The Hong Kong Mortgage Corporation Limited launched the Premium Loan Insurance Scheme (PLIS) in September 2015 to enable subsidised sale flat owners (including HOS 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 [Note 2]. With the settlement of premium payment through the PLIS loan, owners of subsidised sale flats will no longer be subject to alienation restrictions and

Note 2 Details of PLIS can be found at – http://www.hkmc.com.hk/eng/our_business/premium_loan_insurance_scheme.html

	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.
5. Since the proposed PRH income and asset limits have increased, the number of households who are required to vacate their flats on grounds of exceeding the income and asset limits under the Well-off Tenants Policies may be reduced. Circulation of PRH flats will thus be affected.	• At present, under the Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources (collectively known as the "Well-off Tenants Policies"), households who have resided in PRH for ten years or above with an income level exceeding prescribed limits need to pay additional rent; those with income and assets exceeding prescribed limits need to move out of PRH. The income and asset limits under the "Well-off Tenants Policies" are multiples of PRH income limits and will be adjusted according to the revised PRH income limits every year. • If the proposed PRH income limits are endorsed, we cannot rule out the possibility that the number of "well-off tenants" may be reduced as a result. On the other hand, to ensure more efficient use of precious PRH resources, SHC has reviewed the "Well-off Tenants Policies", and endorsed the relevant amendments and implementation details. In particular, PRH tenants with household income exceeding five times of PRH income limits, or with assets exceeding 100 times of PRH income limits, or with private domestic property ownership in Hong Kong should vacate their PRH flats. Relevant amendments will be implemented starting from October 2017. The income and asset limits under the

	revised "Well-off Tenants Policies" are different from the existing limits, and not all households are required to declare their private domestic property ownership in Hong Kong under existing policies. Hence, we are unable to estimate the number of PRH units to be recovered under the revised "Well-off Tenants Policies".
6. The Government should consider providing a set of more relaxed PRH income and asset limits for residents affected by the Government's land resumption, so that these residents can become eligible for PRH.	• Under the principle of ensuring fair and rational allocation of PRH resources, we must establish a clear boundary for assessing the eligibility for PRH in an objective manner. • Currently, the Government resumes private land for public purposes pursuant to the relevant laws, and has put in place established mechanisms to assess the compensation receivable by affected residents. Since the number of PRH applicants remains high at the moment, providing more relaxed income and asset limits especially for the affected residents will undermine the fairness of the PRH application system. We therefore consider that same treatment should be applied to all, and a uniform set of income and asset limits should be adopted for assessing eligibility for PRH.
7. The PRH income limits assessed according to the existing methodology will induce some PRH applicants to give up opportunities for jobs, pay rise or promotion in order to meet the PRH income limits.	• As pointed out in paragraph 5 of the paper, under the existing mechanism, PRH income limits are derived using a household expenditure-based approach to objectively measure the total household income required to rent private accommodation comparable to PRH while also meeting other non-housing expenditure. Households with income and assets below the

	prescribed limits are deemed to be unable to afford renting private accommodation, and hence are eligible for PRH. • As explained in paragraph 8 of the paper, SHC improved the mechanism for adjusting the PRH income limits in February 2013 by introducing the change in nominal wage index as the income factor. Non-housing costs are now adjusted according to the latest movement in the CPI(A)(excluding housing costs) or the change in the nominal wage index, whichever is higher. In the current review, as the annual change in nominal wage index (+3.7%) is higher than the yearly change in CPI(A)(excluding housing costs)(+2.0%), the change in nominal wage index is adopted to adjust the non-housing costs.
8. Whether the Government will consider providing public rental housing units for middle-income families to meet their housing needs. Rents for such units can be set at a level higher than the existing PRH rental levels but lower than that for private residential units.	• It is HA's objective to provide PRH to low-income families who cannot afford to rent private accommodation. Rents of PRH units are set at a level which is affordable to PRH tenants. HA has no plan to introduce public rental housing units for middle-income families at the moment. • On the other hand, there are over 32 000 rental units under HKHS, including Group B units [Note 3] which are let to households with two persons and above with higher income. The relevant income limits, comprising both

Note 3 Group B units are located at three Group B estates, including Bo Shek Mansion in Tsuen Wan, Healthy Village (redeveloped) in North Point and Prosperous Garden in Yaumatei.

	upper and lower limits, are higher than the PRH income limits [Note 4]. The rents for Group B units are lower than market rents and are reviewed once every two years. Currently, the rental rates are set at 48% of market rents.

Note 4 Currently, the income limits for Group B units are from \$17,501 to \$28,000 for two-person households; from \$23,001 to \$33,000 for three-person households; from \$27,501 to \$41,000 for four-person households; and from \$39,561 to \$51,000 for households with five persons and above. Relevant income limits will be adjusted annually according to the review of PRH income limits.

<u>Annex 2</u>

PRH Income and Asset Limits for 2017/18

Household Size	PRH Income Limits for 2017/18*	PRH Asset Limits for 2017/18^
1-Person	$11,250 ($11,842)	$245,000
2-Person	$17,350 ($18,263)	$333,000
3-Person	$22,390 ($23,568)	$433,000
4-Person	$27,050 ($28,474)	$506,000
5-Person	$32,960 ($34,695)	$562,000
6-Person	$36,010 ($37,905)	$608,000
7-Person	$41,420 ($43,600)	$650,000
8-Person	$46,320 ($48,758)	$681,000
9-Person	$51,090 ($53,779)	$752,000
10-Person and above	$55,750 ($58,684)	$810,000

* Figures in brackets denote the effective income limits should a household be contributing 5% of its income under the Mandatory Provident Fund Scheme as required by the law.

^ Asset limits for elderly households (i.e. households comprising solely elderly members) are set at two times of the limits for non-elderly applicants.