

(Translation)

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The Government of the Hong Kong Special Administrative Region

運輸及房屋局

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27 July 2018

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

Dear Mr Lo,

2018 Rent Review of Public Rental Housing (PRH)

At the meeting of the Legislative Council Panel on Housing (Panel) on 10 July 2018, Members discussed the outcome of the 2018 PRH rent review. Views of Members, the motions passed by the Panel¹ and the Housing Department's observations and responses have been relayed to the Hong Kong Housing Authority (HA)'s Subsidised Housing Committee (SHC). The relevant SHC paper is provided at Annex for Members' reference.

2. SHC noted Members' views, the Panel's motions as well as the Department's responses, and endorsed the outcome of the 2018 PRH rent review at its meeting on 17 July 2018. In summary, SHC was satisfied that the income index of PRH tenants had increased by 11.59% from 2015 to 2017; and due to the 10% cap under the law, PRH rent shall only be adjusted upwards by 10%. The new PRH rent will be effective from 1 September 2018.

¹ LC Paper No. CB(1) 1258/17-18(01)-(03).

3. Further to SHC's earlier exchange of views at an informal meeting held on 8 June 2018, SHC also discussed the PRH rent adjustment mechanism and other alternatives to revise the mechanism (such as adjusting PRH rent with reference to inflation, households' expenditure level, median household income and wage index) at the meeting on 17 July 2018. In summary, SHC noted from actual experience that the current rent adjustment mechanism based on tenants' income had achieved the intended objective of the legislation when it was enacted in 2007, by consistently and objectively ensuring PRH tenants' affordability, and was a more effective mechanism when compared with other options. Under the existing mechanism, there was a 10% cap on the rate of rent increase, while there was no floor in case of rent reduction. In the long run, tenants' affordability in rent payment would only improve and will not worsen. In comparison with the various alternatives to revise the mechanism, SHC agreed that the existing mechanism could better protect tenants' affordability in both conceptual and practical terms, and should therefore be maintained.

4. Besides, SHC had a detailed discussion on whether rent waiver should be granted to PRH tenants in 2018-19. After carefully considering all relevant factors, including the increase in tenants' income, protection offered by the rent adjustment mechanism in maintaining tenants' affordability, and other relief measures under the Government's 2018-19 Budget, SHC considered that there was no practical need for HA to grant all tenants an across-the-board rent waiver in the current review. Instead, SHC considered that HA should continue to offer targeted assistance to tenants in need through its Rent Assistance Scheme.

Yours sincerely,

(Original Signed)

(Jerry Cheung)
for Secretary for Transport and Housing

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

2018 Rent Review of Public Rental Housing –

**Views of Members of the Legislative Council Panel on Housing
at the meeting on 10 July 2018 and the Department's Responses**

PURPOSE

This paper briefs Members on the comments made by Members of the Legislative Council (LegCo) Panel on Housing (Housing Panel) on the outcome of the 2018 Rent Review of Public Rental Housing (PRH) and the Department's observations and responses.

BACKGROUND

2. The Hong Kong Housing Authority (HA)'s Subsidised Housing Committee (SHC) will consider the 2018 PRH Rent Review at its meeting on 17 July 2018 (please see Paper No. SHC 18/2018 for details). At the request of the Housing Panel, we briefed the Panel on the outcome of the rent review on 10 July 2018. Views of the Housing Panel and the Housing Department's observations and responses are now submitted for SHC's consideration.

VIEWS OF THE HOUSING PANEL

3. At the Housing Panel's meeting, some LegCo Members were of the view that the existing PRH rent adjustment mechanism should be reviewed in order to reflect the rent affordability of PRH tenants in a more holistic manner. Some Members considered that given the increase in other living expenses, further rent increase would add to the burden of PRH tenants. HA should therefore reduce the rate of rent increase or freeze the rent level. In addition, there were also views that HA should provide a one-month rent waiver to all

PRH tenants, and further enhance the Rent Assistance Scheme (RAS). At the meeting, the Panel passed three non-binding motions. The details are at ----- **Annex.**

4. Our observations and responses to the above motions and other views raised by Members at the meeting are summarised in the ensuing paragraphs.

Reviewing the rent adjustment mechanism

5. At the meeting, some LegCo Members requested HA to review the existing PRH rent adjustment mechanism. As set out in Paper No. SHC 38/2018 attached to the paper submitted to the Housing Panel, there have been requests from the community for reviewing the rent adjustment mechanism. In concluding the 2016 rent review, the SHC Chairman also indicated that it would be appropriate to revisit the mechanism which had been in operation for almost ten years. We have compared the current rent adjustment mechanism and other suggested options such as adjusting PRH rent with reference to inflation, wage index and median rent-to-income ratio. The detailed analysis is at **Annex G to Paper No. SHC 38/2018**. At a brainstorming session held on 8 June 2018, SHC Members exchanged views on the current mechanism and other suggested alternative options.

Current mechanism

6. The existing rent adjustment mechanism is the outcome of extensive and lengthy public discussions. HA conducted the Review on Domestic Rent Policy from 2001 to 2006, including a three-month public consultation. During the process, various adjustment methods (i.e. Consumer Price Index (CPI)(A), CPI(A) excluding housing expenditure, median monthly household income and income index) were considered. Upon scrutinising the bill, LegCo endorsed the current mechanism and confirmed that using tenants' household income as the basis for rent adjustment best reflects their affordability.

7. Actual experience shows that the current rent adjustment mechanism based on tenants' income has achieved the intended objective of the legislation when it was enacted in 2007, by consistently and objectively ensuring PRH tenants' affordability. It is a more effective mechanism when compared with other options –

- (a) The income of PRH households has increased cumulatively by **88%** from 2007 to 2017. However, PRH rent will have only increased by **53.3%** cumulatively (upon a 10% rent increase pursuant to the outcome of the current rent review). This shows that tenants' income increase has exceeded rent increase. In other words, the after-rent income available for tenants' saving or meeting other living expenses has in fact increased ^{Note 1}; and
- (b) as a crude comparison, the ratio of the average PRH rent to the average PRH household income has gradually decreased from **9.97%** in 2007 to **9.14%** after the rent increase in accordance with the current review ^{Note 2}.

8. Under the existing mechanism, there is a 10% cap on the rate of rent increase, while there is no floor in case of rent reduction. In the long run, **tenants' affordability in rent payment will only improve and will not worsen, thus offering stronger protection for tenants.**

Suggestion of making reference to CPI and expenditure level

9. When calling for review on the existing mechanism, one of the key criticisms among some LegCo Members and members of the public is that the current mechanism does not take into account the factor of inflation. Some people opined that despite an increase in the nominal income of PRH tenants, the increase in their "real income" would be partially offset by inflation. Therefore, it would not be fair to make reference to their nominal income change only in determining the extent of rent adjustment. In addition, there were views that the existing mechanism had not taken into account tenants' expenditure level, hence could not cater for tenants' "actual" affordability in a holistic manner. There was also no room for PRH tenants to improve their livelihood at times of a mild income increase.

10. The PRH rent adjustment mechanism aims to ensure that rent can be maintained at a **reasonable** and **affordable** level to PRH tenants. As indicated by the figures in paragraph 7 above, adjustment is made according to income change under the existing mechanism, which ensures that the average

Note 1 See paragraph 19(a)(ii) of Paper No. SHC 38/2018 for details.

Note 2 See paragraph 19(a)(iii) of Paper No. SHC 38/2018 for details.

rent increase will not exceed the average income increase. Upon the current rent adjustment, the crude ratio of the average PRH rent to the average PRH household income has gradually reduced from **9.97%** in 2007 to **9.14%**. Tenants will spend a smaller portion of their income on rent, hence the portion available for meeting other living expenses will increase. On the contrary, changes in PRH households' expenditure levels are not directly related to rent affordability. For example, when income increases at a higher rate than expenditure increase, tenants' rent affordability will improve; and when income drops by a greater degree than the drop in expenditure, tenants' rent affordability will still be worsened. Therefore, expenditure is not a suitable basis for reviewing PRH rent.

11. Similarly, as shown in **Annex G to Paper No. SHC 38/2018**, CPI could only reflect changes in the price level of consumer goods and services, and is not related to changes in income. Therefore, by nature, CPI could not reflect tenants' affordability. **Even if the income index were to be adjusted by CPI, it still could not truly reflect PRH tenants' affordability, and might even undermine tenants' affordability under certain circumstances (especially at times of deflation).** As indicated in the examples at Annex G to Paper No. SHC 38/2018, "real income" may still increase despite a drop in nominal household income. If PRH rent were to be raised on this basis, it would not only fail to offer tenants any protection, but would in fact increase their burden. The suggestion of making reference to CPI in rent adjustment cannot ensure tenants' affordability in a consistent and objective manner throughout different economic situations, and hence is not desirable.

Income index

12. Some considered the income index under the current review (11.59%) to be on the high side since it was higher than the changes in nominal and real wage indices ^{Note 3}. Some were also of the view that PRH rent could only be adjusted upwards but not downwards since the implementation of the current mechanism.

13. As explained in Annex G to Paper No. SHC 38/2018, unlike the income index under the existing rent adjustment mechanism, **the wage index (in either real or nominal terms) is not intended to, and cannot, reflect the**

Note 3 Between 2015 and 2017, the changes in nominal and real wage indices were +7.6% and +4.7% respectively.

income changes of PRH households. Since the nature of the two indices is different, with different coverage in terms of income and target groups, they **should not be compared directly.** For example, some factors affecting the income index include the number of working persons in the PRH households; earnings from overtime payments and discretionary bonus; and income unrelated to employment (such as interest and dividend). However, such factors cannot be reflected in the wage index.

14. Some criticised that the existing mechanism only allowed rent increase but not reduction. In fact, as stipulated by law, PRH rent may increase (in which case the increase is capped) or reduce (in which case there is no lower limit), depending on the change in tenants' income. In future, should the tenants' income be found to have dropped based on the data collected under the law, HA would have to reduce rent according to the rate of income reduction. Tenants' affordability in rent payment could therefore be maintained.

Extending the review cycle from two years to three years

15. Some opined that the rent review cycle should be extended to three years. The Housing Ordinance ^{Note 4} provides that HA shall conduct a rent review every two years. This arrangement was the outcome of an extensive public consultation and discussions by the relevant Bills Committee of LegCo. The relevant requirement has taken into account the concern that the cumulative changes in income index over a relatively long period of three years may give rise to a large degree of rent adjustment which tenants may find it difficult to cope with. On the other hand, a shorter rent review cycle of two years allows HA to react more quickly to changes in socio-economic circumstances. In particular, when rent needs to be reduced in the light of tenants' income decrease, a review cycle of two years, instead of three years, can better cater for tenants' affordability.

16. In view of SHC's decision in 2016, we have revisited the existing mechanism. In comparison with the various alternatives to revise the mechanism, we consider that the existing mechanism can better protect tenants' affordability in both conceptual and practical terms, and should therefore be maintained.

Note 4 Section 16A(1)(b) of the Housing Ordinance provides that HA shall "review the relevant rent as soon as practicable after the secondary anniversary of the expiry date of the second period of the last review".

Providing a one-month rent waiver

17. At the Housing Panel's meetings, some Members suggested HA to grant a one-month rent waiver to tenants to ease their financial burden.

18. In considering this issue, Members may make reference to the relevant factors outlined in paragraph 19 of Paper No. SHC 38/2018. In short, as pointed out in paragraph 7 above, the existing rate of rent adjustment should be affordable to PRH tenants. For those with financial difficulties, they may seek relief through either CSSA or RAS.

19. PRH tenants can also benefit from the various relief measures under the 2018-19 Budget. In particular, for rates concessions, HA passes on all the rates concession to PRH tenants. Crudely speaking, **the amount of rates concessions receivable by almost all PRH tenants (about 99.8%; the remaining 0.2% being "well-off" tenants) in 2018-19 would fully offset the total amount of rent increase for that year**^{Note 5}. The impact of the current rent adjustment on PRH tenants in 2018-19 is therefore minimal^{Note 6}.

20. Moreover, according to the principle laid down by HA in the 2014 rent review, **granting a rent waiver to all tenants irrespective of whether they are in need may not be the rational use of public money** (a one-month rent waiver is estimated to require about \$1.6 billion). In light of the above factors, we do not consider there is a strong case for providing rent waiver.

Enhancing RAS

21. In implementing RAS for the past 20 years or so, HA has been reviewing its operation and introducing enhancements from time to time in view of the comments received. The various publicity work and enhancement measures implemented by the Department in the past are set out at **Annex F to Paper No. SHC 38/2018** for Members' reference.

Note 5 Refers to the amount of rent increase from September 2018 to March 2019. The calculation does not take into account CSSA households and households paying market rent.

Note 6 Even if we only take into account the rates concessions receivable in the months with rent increase in 2018-19 (i.e. September 2018 to March 2019), the rates concessions receivable by about 91% of PRH tenants can still fully offset the amount of rent increase for that year.

22. Some suggested that RAS should be revised, such as through freezing the rent for some of the tenants under the scheme. It should be noted that in the past, after receiving rent assistance for three consecutive years, non-elderly RAS beneficiaries living in newer block types ^{Note 7} were required to move to cheaper accommodation in the same district, if suitable flats were available. Starting from September 2016, **the requirement of moving to cheaper accommodation has been relaxed from three to four consecutive years.** In addition, **the frequency of review of RAS eligibility has been reduced from once every year to once every two years.** The arrangement relieves households from preparing income documents for eligibility vetting every year. It also reduces the chance of tenants with financial difficulties considering the application procedures too complicated and thus refraining from applying.

23. RAS tenants can also enjoy the rates concessions in 2018-19 as mentioned in paragraph 19 above. In these cases, HA passes on the rate concessions on a pro-rata basis (e.g. tenants paying 50% rent can receive 50% of the rates concessions for their units). For households who are currently benefitting from RAS, the amount of rates concessions receivable in 2018-19 should fully offset the amount of rent increase that year. Therefore, the rent increase should have no actual impact on these households in 2018-19.

24. There were comments that we should step up our publicity efforts on RAS to help those tenants in need better understand the calculation of the income eligibility under the scheme. In this regard, starting from mid-2018, the Housing Department plans to provide more relevant information, such as the respective income levels and the calculation method of the rent-to-income ratio, on HA/Department's website for reference. The Housing Department also provides explanation and assistance to those in need (in particular the elderly) through various channels.

25. Upon implementation of various publicity work and enhancement measures in the past, **the number of RAS beneficiaries increased substantially by 42%**, from about 12 300 as at July 2014 to about 17 500 as at May 2018, with about 90% of beneficiaries receiving a 50% rent reduction. In view of the above, fundamental changes to the scheme may not be required.

Note 7 These refer to Harmony blocks and rental flats converted from the Home Ownership Scheme/Private Sector Participation Scheme/Buy-or-Rent Option and blocks completed in or after 1992.

We will continue to keep in view the operation of RAS and consider measures to further enhance the scheme as appropriate.

DECLASSIFICATION

26. We will declassify the paper, which will be made available to the public at the HA's homepage, the Department's library and through the Departmental Access to Information Officer.

INFORMATION

27. This paper is issued for Members' information.

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(Strategy Division)
Date of Issue : 16 July 2018

**Non-binding Motions Passed by
the LegCo Panel on Housing at the Meeting on 10 July 2018**

- (1) “It is the fourth time in a row that HA increases rent by 10%. However, with the soaring prices these days, the living burden of PRH residents is becoming increasingly heavy, as the increase in their income has mostly been offset by inflation; in addition, the Government, albeit having substantial fiscal surplus, has not proposed in the Budget any measures to pay rent for PRH residents, and actually it is difficult for some tenants to afford a 10% increase in rent. This Panel considers that a review of the existing rent adjustment mechanism, which has been in use for 10 years, should be conducted, and the review should include studying lowering the ceiling of each rent increase, adjusting rent once every three years instead of every two years, and taking the factor of inflation into account when calculating income, etc. At the same time, this Panel urges the authorities to offer a one-month rent waiver to PRH tenants, with a view to relieving the pressure brought about by rent increase.”

Moved by : Hon Wilson OR Chong-shing, MH
Seconded by : Hon Vincent CHENG Wing-shun, MH

- (2) “This Panel urges HA to expeditiously review the rent adjustment mechanism for PRH, and while the change in the income index should be used as the basis for adjustment, elements such as inflation and household expenditure should also be included in the adjustment mechanism, such that rent will be adjusted to a level which is more affordable by residents; at the same time, HA should also consider introducing relief measures to assist residents, including considering the provision of a one-month rent waiver and enhancement of the rent assistance scheme, in order to relieve the financial pressure brought about by the 10% increase in PRH rent on residents.”

Moved by : Hon KWOK Wai-keung, JP
Seconded by : Hon LUK Chung-hung, JP

(3) “This Panel requests HA:

1. to review the rent adjustment mechanism for PRH and adjust rent in a more comprehensive, fairer and more reasonable manner, with a view to ensuring that the mechanism can truly reflect the affordability of PRH residents, as well as to consider including factors that affect the financial status of residents, such as inflation rate, etc., as the indicators for setting rent levels.
2. to enhance the rent assistance scheme, such that households with financial difficulties but with no improvement in income can have their rent frozen during the rent increase cycle, in order to fulfil the intent and spirit of the rent assistance scheme.
3. that HA be urged to examine, during the rent adjustment period in 2018, the feasibility of offering households a one-month rent waiver, so as to relieve the financial pressure of grass-roots households.”

Moved by : Hon Andrew WAN Siu-kin