

For information

Legislative Council Panel on Housing and Panel on Development

Government's New Initiatives on Housing

Purpose

This paper informs Members of the new housing initiatives announced by the Chief Executive today.

New Housing Initiatives

2. The Chief Executive announced a package of six new housing initiatives today. The six new initiatives are –

- (a) revising the pricing policy for Subsidised Sale Flats (SSFs);
- (b) inviting the Urban Renewal Authority (URA) to assign its non-joint venture project at Ma Tau Wai Road as a “Starter Homes” (SH) pilot project;
- (c) reallocating private housing sites for public housing;
- (d) setting up a task force to assist the community to take forward transitional housing projects;
- (e) introducing “Special Rates” on vacant first-hand private residential units; and
- (f) amending the Lands Department (LandsD) Consent Scheme (Consent Scheme) to improve sales practices.

Details are set out at **Annex**.

3. Members are invited to note the contents of the new housing initiatives.

**Development Bureau
Transport and Housing Bureau
June 2018**

New Initiatives on Housing

INTRODUCTION

While continuing to strive to increase land and housing supply, we need new initiatives to better utilise existing land and housing resources to increase the supply of adequate and affordable housing, and to encourage more timely supply of first-hand private flats.

2. The Chief Executive (CE) announced a package of six new housing initiatives on 29 June 2018. The six new initiatives are set out in paragraphs 10 to 33 below.

Present Situation in the Housing Market

3. On 16 December 2014, the Government promulgated the Long Term Housing Strategy (LTHS). Despite earnest efforts, the severe shortage of land supply coupled with other external factors has continued to lead to a shortage of housing supply¹ and surging property prices. The increase in property prices is hefty in the past 12 months. As at May 2018, the overall private residential price index hit record high at about 382.6², representing a year-on-year surge of 14.7% and 121.3% above the 1997 peak. The increase was led by small-sized flats³, with a year-on-year growth of 14.8% and an upward spike of 1.5% to 2% each month since December 2017, visibly faster than the increase in prices of larger flats at 10.1% over the period.

4. Increases in housing prices have outrun income growth in the past decade. Median monthly household income registered a growth of 45% between 2008 and 2017, as compared with an increase in private residential price and rental over the same period at 177% and 58% respectively. Housing in Hong Kong has become the least affordable in the world as compared to

¹ Between 2007 and 2016, the average annual housing completions (both public and private) amounted to 25 700 units, down by over 50% from the corresponding figure for the preceding decade (an annual average of 59 800 units).

² The base year of the index is 1999.

³ Small-sized flats refer to units with a saleable area of less than 70 square metres (m²), accounting for about 80% of private housing stock.

other major cities such as Sydney, San Francisco, London, etc.⁴ The index of home purchase affordability⁵ stayed high at 71% in the first quarter of 2018, significantly above the long-term average of 44% over 1998-2017. Should interest rates rise by three percentage points to a more normal level, the ratio will soar to 93%.

5. While private residential property has become increasingly unaffordable, the average waiting time of public rental housing (PRH) has been worsening. There are now over 270 000 applicants for PRH including over 153 000 general applicants (family and elderly one-person applicants) and 119 000 non-elderly one-person applicants under the Quota and Points System. For the general applicants, the Government and the Hong Kong Housing Authority (HA)'s target is to maintain the average waiting time⁶ at around three years. However, the latest average waiting time of general applicants has increased to 5.1 years, and this trend may persist. High housing costs have driven the vulnerable low-income households to seek accommodation in subdivided flats or temporary housing. There are over 120 000 such inadequately housed households⁷ according to the 2016 Population By-census.

6. According to the latest LTHS projection announced in December 2017, the total housing supply target for the ten-year period from 2018-19 to 2027-28 is 460 000 units, comprising 200 000 PRH units, 80 000 SSFs and 180 000 private residential units. Even assuming all the sites identified by the Government for public housing can be delivered on time for housing construction, they can be used for the construction of about 237 000 public housing units only which fall short of the supply target of 280 000 by 43 000. The Government needs to step up efforts in planning ahead continually to develop land and housing in the short, medium and longer term with a view to meeting the supply target.

⁴ Source of information: Demographia International Housing Affordability Survey.

⁵ This refers to the ratio of mortgage payment for a 45m² flat to median income of households (excluding those living in public housing) for a tenure of 20 years at the prevailing interest rate.

⁶ 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 average waiting time 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.

⁷ Including those residing in (i) units made up of temporary structures; (ii) units located in non-residential buildings; (iii) units shared with other households; and (iv) subdivided units.

CE's Housing Policy

7. Housing is the very issue that Hong Kong people most earnestly look to the current-term Government to resolve with innovative solutions in a resolute manner. CE outlined in her 2017 Policy Address a housing policy comprising four elements –

- (a) housing is not a simple commodity. It is one of the pillars of a caring and inclusive society. While respecting free market, the Government has an indispensable role to play in providing Hong Kong people with adequate accommodation;
- (b) we will focus on home ownership, and will strive to build a housing ladder to rekindle the home ownership hopes of families in different income brackets;
- (c) based on the LTHS, we will step up our effort in increasing housing supply; and
- (d) when new supply is not yet available, we will strive to optimise the existing housing resources to meet the needs of those inadequately housed.

8. Since the 2017 Policy Address, the Government has been making progress in increasing public housing production and enhancing different rungs of the housing ladder, as summarised below –

- (a) **Public housing production** – The Government has been making continuous efforts to increase public housing supply on the basis of the long-term supply targets under the LTHS (see paragraph 6 above). As at March 2018, the estimated total public housing production of the HA and the Hong Kong Housing Society (HKHS) in the five-year period from 2017-18 to 2021-22 is about 99 700 units, comprising about 74 700 PRH units and about 25 100 SSFs⁸. Where planning and infrastructure permit and without unduly compromising on environmental quality, the Government will continue to actively explore all feasible ways to optimise the development potential of available public housing sites such as through seeking the Town Planning Board's approval for relaxation of plot ratios and building height restrictions if necessary;

⁸ Figures are rounded to the nearest hundred and thus may not add up due to rounding.

PRH – PRH is the first rung on the housing ladder, and a long-established safety net for grassroots and low-income families. The Government has been sparing no efforts in increasing PRH supply through both producing new PRH flats and ensuring rational use of existing PRH resources. In addition to the new PRH supply mentioned above, there is a net recovery of over 7 000 PRH units from tenants every year for allocation to PRH applicants. With new SSF projects coming on stream, more PRH units would be recovered for allocation;

- (b) **Green Form Subsidised Home Ownership Scheme (GSH)** – In January 2018, HA regularised GSH. GSH is a new type of SSF with more affordable prices than Home Ownership Scheme (HOS). It aims at helping the financially more capable Green Form applicants (primarily existing PRH tenants and PRH applicants who have gone through detailed eligibility vetting and are about to be offered a PRH unit) to purchase their own homes. A new GSH project with over 2 500 units at Cheung Sha Wan will be offered for pre-sale by end 2018;
- (c) **White Form Secondary Market Scheme (WSM)** – In November 2017, WSM was regularised by HA with an annual quota of 2 500 as from 2018. WSM seeks to allow White Form (WF) applicants to purchase SSFs in the Secondary Market without payment of premium;
- (d) **HOS** – The sale of 2018 HOS covering around 4 400 flats was launched in March 2018 on the basis of the existing pricing mechanism (see paragraph 12 below) and resale restrictions;
- (e) **SH** – The Government has been formulating the implementation framework taking into account views expressed by the public. We note in particular a keen demand for the early launch of the pilot project;
- (f) **Private housing** – For 2018-19, the announced Land Sale Programme (LSP) comprises a total of 27 potential residential sites capable of providing about 15 250 private housing units. When announcing the LSP, the Development Bureau (DEVB) has also indicated that if other private housing land supply sources including railway property development projects, projects of the URA and private development or re-development projects are taken into account, private housing land supply in 2018-19 has the potential to

produce about 25 510 flats; and

- (g) **Land supply** – the Government set up the Task Force on Land Supply (Task Force) in September 2017 to provide the public with a holistic view on land supply and carry out a major public engagement exercise examining the pros and cons of different land supply options. The Task Force is expected to draw up a comprehensive package of proposals and a visionary land supply strategy by end of this year for the Government’s consideration.

New Initiatives

9. Admittedly, we need more land to meet our needs and it takes time to increase land supply. Meanwhile, the Government should continue to find ways to make the best use of existing land and housing resources to increase the supply of adequate and affordable housing and encourage more timely supply of first-hand private flats. In this regard, we will introduce a package of six new initiatives as set out in paragraphs 10 to 33 below.

Objective (1) – Making SSFs more affordable

New initiative (1) – Revising the pricing policy for SSFs

10. SSFs⁹ are an important rung on the housing ladder. They seek to assist the lower to middle-income households who cannot afford to buy flats in the private sector to meet their home ownership aspirations. SSFs are the first step to home ownership for low to middle-income families, and provide opportunities for home ownership to PRH tenants whose PRH units can then be allocated to PRH applicants.

11. The 2018 sale of HOS flats involves 4 431 new flats at an estimated average price ranging from \$6,698 per square feet (ft²) to \$9,755 per ft² in three developments. On the one hand, the sale has attracted about 152 000 applications, i.e. an average of 34 applicants per unit. On the other hand, there have been criticisms against the selling prices, claiming that the flats are unaffordable. The Government has been urged to review the pricing mechanism of HOS specifically or SSFs in general and remove its link with market prices so as to ensure the flats of these schemes remain affordable to households from the target income group.

⁹ In this context, SSFs refer to HA’s HOS and GSH only. While HKHS also develops and administers subsidised sale flat projects, subject to the land grant conditions where applicable, we would respect their autonomy in devising a pricing mechanism for their subsidised sale flats.

12. According to the existing pricing policy, HA prices HOS flats at 70% of “assessed market value” (30% discount) if the resultant prices meet the affordability test. The test is met if for at least 50% of the flats, households with income at the prevailing income limit for WF family applicants (currently \$57,000 net of Mandatory Provident Fund (MPF) contributions for families of two-or-more persons) need not use more than 40% of their income on mortgage payments¹⁰. If the affordability test is not satisfied, a discount higher than 30% will be offered. Despite meeting the affordability test (93% affordable) as in previous HOS sale exercises from 2014 onwards, the 2018 HOS prices are regarded by many as unaffordable. This could mainly be attributable to the soaring private property prices which have driven up the income limit for WF families, the higher selling prices of flats in urban locations (Kai Tak and Cheung Sha Wan) and inclusion of a small number (5%) of more expensive outlier flats¹¹ in urban locations.

13. The Government has reviewed the affordability test and found that there is room to fine-tune the test by delinking it from the reference to the HOS income limit, hence removing its indirect link with market prices.

14. In simple terms, the WF income limit represents the amount of household income required to purchase a reasonably sized flat in the private sector (the model flat)¹² (with certain assumptions made about loan-to-price ratio, interest rate, repayment period, non-housing expenditure, etc.¹³). Households with income below the limit are deemed to be unable to afford home ownership in the private sector and hence qualified for HOS. In other words, the WF income limit includes a housing cost element which inevitably varies with private property prices. Such a linkage is logical for the purpose of determining the eligibility for HOS since the higher the price of an average property in the private market, the more households would find it unaffordable

¹⁰ Mortgage payment is worked out based on the mortgage loan-to-price ratio of 90% and the flat will be mortgaged for a term of 20 years at either the average mortgage interest rate in the past 12 months or the prevailing mortgage interest rate (whichever is higher).

¹¹ HOS flats normally comprise four standard sizes – Type A (1/2 person(s) (1/2P) of about 18m² saleable area; Type B (2/3P) of about 27m² saleable area; Type C (3/4P) of about 38m² saleable area and Type D (4/5P) of about 44m² saleable area but a small number of outlier flats may also be included in individual sale exercises for various reasons, including making full use of the available floor area and responding to the requests for larger units from some eligible family applicants.

¹² A ten-year old 40m² saleable area flat in Extended Urban Area or New Territories.

¹³ Such assumptions include, for example, that the mortgage loan-to-price ratio is 80% and the flat will be mortgaged for a term of 20 years at either the average mortgage interest rate in the past 12 months or the prevailing mortgage interest rate (whichever is higher), etc.

and need assistance. An income limit that is linked to private housing prices serves precisely this purpose and should remain unchanged.

15. However, when the WF income limit is used as a benchmark in the affordability test, it may create an issue: as the WF income limit rises with market prices, more applicants will find it difficult to afford the HOS prices determined by reference to the WF income limit.

16. To make HOS flats more affordable to households earning less than the WF income limit, we will revise the affordability test by:

- (a) using the median monthly household income of non-owner occupier households (currently around \$39,500¹⁴) in the affordability test instead of the WF income limit (currently at \$57,000 net of MPF contributions); and
- (b) ensuring at least 75% of flats are affordable (increased from 50%).

For illustration, if we had adopted the new affordability test in the 2018 HOS sale, the flats would be sold at 52% instead of the original 70% of the assessed market value. With the removal of the reference to WF income limit, the pricing of HOS flats will no longer be linked to market prices of private housing.

17. As for GSH, HA has decided that there should be a further discount of 10% from that decided for the preceding HOS sale exercise. As HOS prices will be more affordable under the new affordability test, the additional 10% discount will make GSH even more affordable and attractive to PRH sitting tenants. GSH will also provide another viable alternative to PRH applicants who are about to be allocated with a PRH flat.

18. CE announced in her 2017 Policy Address that the Government would introduce the SH Pilot Scheme to enrich the housing ladder and re-ignite the hopes of families with higher income of owning a home in the face of hiking property prices. As SH targets at families with higher income, the discount for SH flats will generally be 10% to 20% less than that decided for the preceding HOS sale exercise. More details are at paragraphs 23 to 24.

19. The proposed new pricing mechanism does not propose to change other elements of the established pricing mechanism. This includes the

¹⁴ 2017 Q4 figure net of MPF contributions.

principle that the prices of units should not lead to a loss to HA (in overall terms counting all units in all developments in a sale exercise).

20. We note that there are suggestions that SSFs should be priced at cost (whether construction cost to HA, or full cost to HA, or full cost including cost of land). We do not support such proposal. This is because costs vary among developments in ways that may not correspond to the market values of flats. For example, a development in the New Territories may cost more than another in the urban district. If the above New Territories flats are then priced higher than those in the urban district, such selling prices would go against people's common sense and expectation.

21. With the introduction of a new pricing mechanism which may give rise to selling HOS and GSH flats at higher discount from assessed market values, we will propose that HA consider tightening the alienation restrictions for SSFs as well.

22. The proposed new pricing policy will be adopted for SSFs starting from the 2018 GSH sale exercise. The Government will invite HA to consider whether it will implement the new pricing policy for the sale of the 2018 HOS.

Objective (2) – Increasing supply of subsidised housing units and enhancing support for transitional housing supply

New initiative (2) – Inviting URA to assign its non-joint venture project at Ma Tau Wai Road as an SH pilot project

23. SH aims to help the higher-income families who are not eligible for HOS and yet cannot afford private housing to meet their home ownership aspirations in the face of hiking property prices. We initially proposed to use a residential site at Anderson Road on the Government's 2018-19 LSP to provide about 1 000 SH units. Since it would take several years before SH units at the Anderson Road site can be put up for pre-sale given the time required for disposal of the site and construction work, we will test out the SH concept earlier by inviting URA to assign its non-joint venture re-development project at Ma Tau Wai Road as an SH pilot project. Following the announcement of this new initiative, approval by the URA Board will be sought in July 2018.

24. The Ma Tau Wai Road project can provide 450 SH units¹⁵ with flat

¹⁵ The Ma Tau Wai Road project consists of 493 units in total, including 29 3-bedroom units with flat size of about 50-53m² (536-574ft²). Having regard to the purpose of SH and affordability of eligible buyers, we will exclude all 29 3-bedroom units from the SH pre-sale exercise. Separately, 15 units (one of them is a

size between 24m² (260ft²) and 47m² (507ft²). The project is expected to be issued with the Occupation Permit (OP) in the second quarter of 2019. Taking into account the time required for preparatory work such as lease modification, it is estimated that the pre-sale exercise can be launched in December 2018 the soonest. Major features of the pilot project are set out at **Appendix A**. The Government will make reference to the experience from the pilot project at Ma Tau Wai Road in taking forward the SH project at the Anderson Road site mentioned in paragraph 23 above.

New initiative (3) – Reallocating private housing sites for public housing

25. We have been working hard to allocate sites for public housing, including some sites that were originally intended for private housing. To better meet the need for more affordable housing, we will further reallocate a total of nine private housing sites (see **Appendix B**), capable of providing about 10 600 flats, for public housing. We will further consider if the developments should be arranged for sale or rental. The sites have been selected taking into account the earliest timing by which the sites could be handed over for construction, as well as the suitability of the sites for public housing in terms of location and development scale. With the reallocation of the nine sites, the public housing ratio in the relevant areas will be increased (see **Appendix C**).

26. With limited land resources, allocating sites originally earmarked for private housing for public housing use will unavoidably reduce the pool of available sites to be rolled out for private housing in the short term. Meeting the prevailing target of supplying land capable of producing 18 000 private flats a year remains a challenge, particularly when the Government does not have full control over sources of private housing land supply other than land sale. For instance, while more than 60% (i.e. 16 780 flats) of the private housing land supply in 2017-18 came from private development or re-development projects (significantly above the 2016-17 yield of 3 520 units as well as the ten-year average of 4 200 units during 2007-2016 for that source), we cannot control or predict with certainty whether such a trend would continue. The Government must keep up its efforts to increase land supply. Meanwhile, to expedite private housing land supply, the Government has implemented various measures to facilitate premium assessment¹⁶ and development control¹⁷.

3-bedroom unit) will be set aside for former owner-occupiers of the Ma Tau Wai Road site who had registered interest to purchase a re-developed unit at full market value under URA's Expression of Interest in Purchasing Arrangement. These units will also be excluded from the SH pre-sale exercise. Hence, the number of units that can be sold as SH units will be 450 (i.e. 493-29-14 = 450).

¹⁶ For example, premium assessments are centralised at LandsD Headquarters in respect of lease modification/land exchange cases involving a premium of over \$100 million or a gross floor area permissible

New initiative (4) – Setting up a task force to assist the community to take forward transitional housing projects

27. The 2017 Policy Address mentions the Government’s effort “to facilitate the implementation of various short-term community initiatives to increase the supply of transitional housing, with a view to alleviating the hardship faced by families on the PRH waiting list and the inadequately housed”. To that end a task force will be set up under the Transport and Housing Bureau to provide one-stop, coordinated support to spearhead transitional housing. See **Appendix D** for list of measures.

D

Objective (3) – Encouraging more timely supply of first-hand private flats

New initiative (5) – Introducing “Special Rates” on vacant first-hand private residential units

28. To ensure the healthy and stable development of the property market, the Government has been monitoring closely the market situation. With the Government’s continuous effort in increasing land supply, the total projected supply of first-hand residential properties for the coming three to four years stayed high at 96 000 units as at 31 March 2018. However, the number of unsold first-hand private residential units in completed projects¹⁸ has been increasing in recent years, from around 4 000 units at end-March 2013 (around 6% of the then projected supply) to 9 000 units¹⁹ at end-March 2018 (around 9% of the then projected supply). The trend is undesirable when we face severe housing shortage. There is a need to introduce more effective measures

exceeding 10 000m² after the lease modification or land exchange. LandsD has also adopted a new set of updated construction costs data as a common reference by the Government and market practitioners to facilitate agreement in premium negotiations. The Government introduced the Pilot Scheme for Arbitration on Land Premium in October 2014, which has been extended to October 2018, to facilitate early agreement on land premium payable for lease modification/land exchange applications. DEVB will, taking into account feedback from stakeholders, review the pilot scheme and explore room for refinement.

¹⁷ While Buildings Department, LandsD and Planning Department have been working closely with stakeholders to facilitate the development process, the Government recognises that given their different objectives and loci and the evolution of the three regimes over the years, there is further room to consolidate and rationalise the standards and definitions adopted by the three departments in scrutinising development projects. DEVB has set up a steering group to streamline or improve the existing development control regime. DEVB will draw up proposals by batches, and aims to roll out the first batch of streamlined arrangements in the latter half of 2018.

¹⁸ These unsold units in completed projects may be vacant units, units occupied by the developers for self-use or units rented out by developers, e.g. serviced apartments.

¹⁹ Among these 9 000 unsold units at end-March 2018, 6 000 were completed in 2017 or in the first quarter of 2018, while the remaining 3 000 were completed between 2011 and 2016.

to encourage developers to expedite the supply of first-hand private flats.

29. We propose to introduce a “Special Rates” on vacant first-hand private residential units by amending the Rating Ordinance (Cap. 116). Owners (mainly developers) of first-hand private residential units with OP issued for 12 months or more will be required to furnish annual returns to the Government on occupancy status of the units. Units that have not been occupied or rented out for more than six months during the past 12 months will be considered as vacant and subject to “Special Rates”. “Special Rates” will be collected by the RVD annually at two times (i.e. 200%) of the rateable value of the units concerned, which is roughly equal to 5% of the property value based on the average rental yield of 2.5% for residential property in March 2018.

30. The Government plans to introduce an Amendment Bill into the Legislative Council (LegCo) in 2018-19 legislative year to amend the Rating Ordinance. The “Special Rates” will take effect after gazettal of the Amendment Ordinance following passage of the Amendment Bill at LegCo.

New initiative (6) – Amending the Consent Scheme to improve sales practices

31. Recently, the Government noticed that some developers adopted sales tactics of including only a small number of their first-hand private residential units in each batch of sale. With the current exuberance and tight demand-supply imbalance in the housing market, such sales tactics may give individual buyers who are not alert enough a misleading impression of very limited supply of first-hand private flats, hence inducing eager buyers to rush into the housing market which might in turn add fuel to the soaring property prices.

32. To improve market transparency and enhance consumer protection, the Government will amend the Consent Scheme to improve sales practices by requiring developers to offer for sale²⁰ no less than 20% of the total number of residential units subject to the relevant pre-sale consent at each turn of sale, regardless of the sales method (including tender and auction). If the remaining unsold residential units are less than 20%, the developer has to offer for sale all remaining units in one go. Developers failing to comply with the 20%

²⁰ Under section 47 of the Residential Properties (First-hand Sales) Ordinance (Cap. 621), developers have to make available the sales arrangements at least three days immediately before the date of sale. Information to be provided in the sales arrangements includes, *inter alia*, (a) the date, time and place when/where the specified residential properties will be offered for sale; and (b) a description of the specified residential properties to be offered for sale on that date, and at that time and place. Under the 20% requirement, including a certain flat under the sales arrangements will be deemed as “offering for sale”.

requirement for the first time will receive a warning from LandsD and need to provide explanation. Meanwhile, the pre-sale consent will be suspended and the developer concerned will not be allowed to offer for sale any units except those that have already been offered to the market. The suspension will only be uplifted upon receipt of satisfactory explanation from the developer. Subsequent or repeated breach of the requirement will result in the pre-sale consent being cancelled without further warning.

33. The 20% requirement takes immediate effect upon announcement, and applies to new pre-sale consent applications and applications currently being processed by LandsD under the Consent Scheme.

New Initiatives on Housing

Appendices

- Appendix A - Major Features of the “Starter Homes” Pilot Project at Ma Tau Wai Road
- Appendix B - Private Housing Sites to be Reallocated for Public Housing
- Appendix C - Public Housing Ratio after Reallocation of Nine Private Housing Sites for Public Housing
- Appendix D - Transitional Housing Measures

**Major Features of the
“Starter Homes” Pilot Project at Ma Tau Wai Road**

Major eligibility criteria

Major eligibility criteria for applying “Starter Homes” (SH) units include, among others, Hong Kong residents –

- (a) who have lived in Hong Kong for seven years or more without subject to any condition of stay (except the condition on the limit of stay);
- (b) who have never owned any residential property in Hong Kong;
- (c) whose income falls between the prevailing income limits for White Form (WF) applicants for Home Ownership Scheme (HOS) administered by the Hong Kong Housing Authority (HA) and about 30% higher than such limits¹;
- (d) whose asset should not exceed the limit of 30% above the prevailing HOS asset limits for WF applicants²; and
- (e) who have not enjoyed or are not enjoying housing subsidy offered by the Government, HA or the Hong Kong Housing Society (HKHS)³.

The Urban Renewal Authority (URA) will formulate the detailed eligibility criteria for Government’s approval before the launch of the pre-sale exercise.

¹ Applying the income limits under HOS Sale 2018, the qualifying requirement under SH is a monthly income of between \$57,001 and \$74,100 for households with two or more persons; and between \$28,501 and \$37,050 for one-person households.

² Applying the asset limits under HOS Sale 2018, the asset limits for one-person households and two-or-more-person households under the SH pilot project are \$1,280,000 and \$2,550,000 respectively.

³ In particular, the principal tenant and his/her spouse included in the tenants’ registers, tenancy agreements or licences of PRH or Interim Housing administered by HA or HKHS are not eligible to apply.

Price setting mechanism

2. The SH units will be sold at a discount from their “assessed market value”. To maintain relativity among different rungs along the housing ladder (particularly HOS and Green Form Subsidised Home Ownership Scheme (GSH)), we propose that the discount for SH units should be 10% to 20% less than that decided for the preceding HOS sale exercise. The exact discount rate will be decided by the Government prior to the launch of the pre-sale exercise having regard to the affordability of eligible buyers. The assessed market values⁴ and the discounted selling prices of all SH units will be provided by URA for Government’s approval shortly before the pre-sale to capture the latest market situation. Same as prevailing practice of HOS and GSH, the selling prices of SH units will remain unchanged during the sale exercise. Any adjustment in the market value between the application and flat selection process will be reflected in the actual discount rate offered to the buyers.

Mortgage arrangement

3. The Hong Kong Mortgage Corporation (HKMC) will provide mortgage insurance cover for 30% or more of the property value as a special scheme for SH buyers (subject to appropriate adjustments to the insurance premium to reflect the additional risk taken) given that the SH pilot project only involves a limited number of units and targets at those meeting the specified eligibility criteria (including income and asset limits). In other words, on the basis that banks are willing to offer mortgages with 50%-60% loan-to-value (LTV) ratio, HKMC can provide mortgage insurance cover for 30%-40% of the property value such that SH buyers can obtain mortgages of up to 90% LTV ratio from banks⁵.

Alienation restrictions

4. As the target buyers of SH are those with higher income, we consider it appropriate to stipulate more stringent alienation restrictions than those for HOS and GSH. We propose that SH owners will not be allowed to sell or let their units within five years from the date of the first assignment. If an owner needs to sell his/her flat in the open market within these five years due to financial hardship or

⁴ In assessing the market value, URA will make reference to the transaction price of comparable flats in the vicinity and make suitable adjustments to reflect any differences in location, accessibility, building quality, development layout, fitting and finishes, etc.

⁵ The actual loan amount to be granted, repayment period, interest rate and all other terms and conditions of the mortgage loan will be subject to approval of the banks on a case by case basis according to the circumstances of individual SH buyers.

changes in family circumstances (e.g. divorce), he/she may only do so after obtaining prior approval from URA and paying the premium to URA. Also, to facilitate better risk managements by banks in the event of a mortgage default during the first five years, banks will be allowed to sell foreclosed SH units in the open market after payment of premium.

5. After the first five years, SH owners are allowed to sell or let their units in open market after payment of premium to URA. Calculation of the premium should be based on the prevailing formula⁶ under HOS and GSH to maintain consistency among different subsidised housing products. The exact amount of premium to be paid will be assessed by URA at the point of application for removal of alienation restrictions. Neither URA nor the Government will buy back any SH units. Same as URA's earlier subsidised housing scheme at Kai Tak, SH owners will not have the option to sell their units without payment of premium to Green Form or WF buyers in a captive secondary market.

URA's role

6. As set out in the 2017 Policy Address, our initial thinking is to require developers to design, build and offer for sale SH units to target buyers who meet the eligibility criteria set by the Government. It follows that, as the developer of the Ma Tau Wai Road project, URA will be responsible for conducting the pre-sale exercise and administering the alienation restrictions imposed on SH buyers. Based on its previous experience of selling subsidised sale flats in its Kai Tak Development project, URA may commission HKHS to act as URA's agent to invite applications and vet applicants' eligibility, etc.

⁶ The formula for premium calculation is as follows –

$$\text{Prevailing market value} \times \frac{(\text{Initial market value} - \text{Purchase price})}{\text{Initial market value}}$$

Appendix B

Private Housing Sites to be Reallocated for Public Housing

Year	Location	Number of Sites	Number of Units⁷
2018/19	Anderson Road Quarry	1	1 400
2019/20	Kai Tak	3	5 400
2020/21	Anderson Road Quarry	2	1 500
2021/22	Anderson Road Quarry	3	2 300
		Total	10 600

⁷ Estimated flat yield is subject to flat design and inclusion of Government, Institution or Community (GIC) facilities.

Appendix C

Public Housing Ratio after Reallocation of Nine Private Housing Sites for Public Housing

Location	Before reallocation	After reallocation
Kai Tak	44%	55%
Anderson Road Quarry	43%	90%
Anderson Road Quarry and Anderson Road	80%	96%
East Kowloon Area (including the above and Kowloon City, Wong Tai Sin and Kwun Tong areas)	58%	60%

Transitional Housing Measures

Measures	Progress
Community Housing Movement	<ul style="list-style-type: none"> • Target to provide 500 units, with 153 units rolled out
Constructing pre-fabricated modular housing on idle sites	<ul style="list-style-type: none"> • Hong Kong Council of Social Service's Modular Social Housing Scheme – Nam Cheong Street will provide 90 units • Processing three applications for constructing pre-fabricated modular housing on idle government sites
Providing financial support	<ul style="list-style-type: none"> • Subsidise the costs of basic works through the \$1 billion set aside for supporting the use of vacant government land for non-profit making purposes and the Community Care Fund etc.
Allowing owners of HKHS' subsidised housing with premium unpaid to rent out their flats	<ul style="list-style-type: none"> • To be rolled out in Q3 2018