

Legislative Council Panel on Housing
Supplementary Information

Purpose

Regarding the motions passed at the meetings on 29 October and 5 November 2018¹; and the supplementary information requested by Members at the Legislative Council Panel on Housing meeting on 5 November 2018, this paper provides the relevant response.

Long Term Housing Strategy (LTHS)

2. The Government announced LTHS in December 2014, which adopts the “supply-led” and “flexible” principles, with a view to gradually averting the housing demand-supply imbalance. According to LTHS, the Government updates the long term housing demand projections annually and presents a rolling ten-year housing supply target to capture various social, economic and market changes over time, and make timely adjustments where necessary.

3. According to the projections in December 2017, the total housing supply target for the ten-year period from 2018/19 to 2027/28 is 460 000 units. With a public/private split of 60:40 for the supply of housing units, the public housing supply target is 280 000 units, comprising 200 000 public rental housing (PRH) units and 80 000 subsidised sale flats (SSFs), whereas the private housing supply target is 180 000 units. The Government is now working on the housing demand projections for the next ten-year period (i.e. from 2019/20 to 2028/29), and will announce the results later this year.

4. As pointed out in the LTHS Annual Progress Report 2017, assuming that all sites identified could be smoothly delivered on time for housing development, these sites could be used for construction of about 237 000 public housing units for the ten-year period from 2018/19 to 2027/28, falling short of our public housing supply target of 280 000 units. In June this year, the Government decided to re-allocate nine sites at Kai Tak and Anderson Road Quarry, which were originally intended for sale in the coming few years, for public housing. The sites are expected to provide some 10 600 public housing units, which will help narrow the public housing shortage in later years. The Government will review the situation from time to time to determine the

¹ LC Paper Nos. CB(1) 125/18-19(01) to (05), and CB(1)152/18-19(01).

most suitable use of sites. Where appropriate, sites originally planned for private housing will be re-allocated for public housing development.

5. The Government will also continue to increase housing land supply in the short, medium and long term through a multi-pronged approach, which includes increasing the development density of developed areas, rezoning existing land, developing new development areas, etc. The Task Force on Land Supply has completed the five-month public engagement exercise, and will submit a comprehensive report on various land supply options to the Government.

6. In addition, as stated in the Chief Executive's 2018 Policy Address, the Government would increase the ratio of public housing, and committed to allocating 70% of housing units on the Government's newly developed land to public housing development. The public/private split of the future ten-year housing supply target under LTHS might also need to be adjusted. The Government will have full regard to the latest developments and views from various sectors, including Members' suggestions, when updating the next ten-year housing supply target later this year.

Public housing supply

7. Based on the estimation as at September 2018, the total PRH / Green Form Subsidised Home Ownership Scheme (GSH) production of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HKHS) in the five-year period from 2018/19 to 2022/23 is about 74 600 units, while the production of other SSFs is about 26 300 units, comprising about 24 600 units by HA and about 1 600 units by HKHS². HA and relevant departments will continue to proactively explore ways to better utilise identified and existing public housing sites, as well as to expedite construction works where possible, in order to increase public housing supply.

Transitional housing

8. As the Government has repeatedly emphasised, in order to avert the fundamental housing demand-supply imbalance at source and address the housing problem in the long run, the ultimate solution is to increase land and housing supply in a continuous and stable manner. As pointed out in the Chief Executive's 2017 Policy Address, since it takes time to identify land for

² For details of the production of HA and HKHS, please refer to Annex 3 of the Public Housing Construction Programme 2018/19 to 2022/23 (LC Paper No. CB(1)219/18-19(03)).

housing construction, the Government will support and facilitate the implementation of various short-term initiatives put forward and carried out by the community on top of the long-term housing policy and measures, so as to make good use of the Community's resources to increase the supply of transitional housing and alleviate the hardship faced by families awaiting PRH and the inadequately housed. To this end, the Chief Executive announced on 29 June 2018 that a task force would be set up under the Transport and Housing Bureau to provide one-stop coordinated support to facilitate the implementation of more community initiatives on transitional housing. These transitional housing proposals may make use of the potential and resources in the community outside the Government, and offer flexible and multiple relief measures for the beneficiaries. The task force will, upon consulting relevant bureaux and departments, provide appropriate assistance and facilitation according to the needs of the proposed items. These include offering advice on administrative or statutory procedures and assisting application on funding support.

Excluding the Working Family Allowance (WFA) from PRH applicants' household income

9. It is HA's objective to provide PRH to low-income families who cannot afford private rental accommodation. The PRH income and asset limits mainly estimate the total household income required to rent private accommodation comparable to PRH as well as meeting other non-housing expenditure. Households with income and asset below the prescribed limits are deemed to be low-income families who are unable to afford private rental accommodation, and hence are eligible for PRH³. HA's Subsidised Housing Committee (SHC) reviews the relevant limits annually, so as to keep them in line with the prevailing socio-economic circumstances.

10. Currently, income that must be declared by PRH applicants and all family members include income from employment, income from self-employment, rental income and other income, etc. Other income refers to income received by means other than employment/self-employment, such as pensions, interest/bonus/dividends from deposits and various kinds of investment, and the Comprehensive Social Security Assistance (CSSA), etc. Since the Government's implementation of the Low-income Working Family Allowance Scheme (subsequently renamed as the WFA Scheme) in 2016, WFA has been regarded by HA as other income of PRH applicants and their family

³ Applicants also need to meet other eligibility criteria for PRH (e.g. applicants and their family members must not own any domestic properties in Hong Kong; at the time of allocation, at least half of the family members included in the application must have lived in Hong Kong for seven years, and all family members must be still living in Hong Kong, etc.).

members in assessing their total household income. The key consideration is that the nature of WFA is similar to that of CSSA and other income, all of which form part of the household income. HA thus takes into account WFA when assessing the income level of PRH applicants.

11. When SHC reviews the PRH income and asset limits annually, apart from considering the household expenditure and other latest relevant data, it also takes into account views from various sectors of the community. When SHC conducts the next review (i.e. for 2019/20) of PRH income and asset limits, it will also consider whether WFA should be regarded as household income and other relevant suggestions.

Selling prices for SSFs

12. The Chief Executive announced the revision of the pricing mechanism of the Home Ownership Scheme (HOS) in June this year. The new HOS pricing policy has introduced two changes to the affordability test of the original mechanism:

- (i) using the median monthly household income of non-owner occupier households⁴ instead of the White Form (WF) income limit⁵ for assessing affordability; and
- (ii) ensuring at least 75% of flats are affordable (instead of at least 50% formerly).

13. All other parameters under the former HOS pricing mechanism remain unchanged, including:

- (i) adopting a unified discount rate for all flats put up for sale under the same sale exercise;
- (ii) offering a discount of at least 30%; and
- (iii) selling prices of flats in one sale exercise should not incur loss to HA.

⁴ Currently at \$39,500 net of Mandatory Provident Fund (MPF) contributions.

⁵ Formerly at \$57,000 net of MPF contributions.

14. Furthermore, the “Starter Homes” (SH) pilot project and GSH will be priced based on the new HOS pricing mechanism⁶. Together with the arrangement for buyers to obtain mortgage loans of up to 90% or even higher loan-to-value ratio, we hope to provide more affordable housing choices for target households of the various housing projects.

15. For Sale of HOS Flats 2018⁷, SHC approved to adopt the new pricing mechanism stated in paragraph 12 - 13 above and revised the average selling prices of flats from 70% to 52% of the then assessed market values. HA re-opened the application of Sale of HOS Flats 2018 in October 2018, and received about 120 000 extra applications (around 270 000 applications were received in total). Balloting was conducted on 29 November 2018 and flat selection will commence in February 2019.

16. For Sale of GSH Flats 2018, SHC endorsed the average selling prices and sales arrangements for the first regularised GSH project, i.e. Lai Tsui Court at Cheung Sha Wan, at its meeting on 16 November 2018. As the discount rate for Sale of HOS Flats 2018 is 48% (i.e. 52% of the assessed market value), and GSH flats will be sold at a discount of 10% more than that determined for the preceding HOS sale exercise, the discount rate for flats of Lai Tsui Court is 58% (i.e. 42% of the assessed market value). Selling prices of the flats range from \$932,500 to \$3,062,100. Application period will commence in December this year.

Sales arrangements for SSFs

17. SHC also endorsed the pilot streamlined application arrangements for Green Form (GF) applicants at its meeting on 16 November 2018, which will be applied to HOS and GSH in 2018 for the first time. All valid unsuccessful HOS GF applications will be carried over to the subsequent GSH sale exercise in the same year. These GF applicants do not need to submit a separate application or pay the application fee for GSH. However, applicants who wish to change their family composition have to cancel the carried-over applications and submit new GSH applications upon payment of the relevant application fee. Those who do not wish to apply for GSH may notify HA to cancel their applications.

⁶ According to the new pricing policy, we will determine the discount for other SSF projects with reference to the discount from the assessed market value of the preceding HOS sale exercise. The discount for SH projects will be 10%-20% lower than that for HOS, while the discount for GSH will be 10% higher than that for HOS.

⁷ Involving some 4 400 flats.

Alienation restrictions for SSFs

18. As the new pricing mechanism may give rise to higher discount rates for SSFs launched by HA in future, SHC endorsed a set of more stringent alienation restrictions for Sale of HOS Flats 2018 at its meeting on 17 July 2018. The revised alienation restrictions will in effect prevent owners from paying premium and selling their flats in the open market within the first five years from first assignment from HA.

19. At the subsequent meeting on 16 November 2018, SHC endorsed adopting the alienation restrictions proposed for Sale of HOS Flats 2018⁸ for Sale of GSH Flats 2018, and further tightening the alienation restrictions for SSFs (including HOS and GSH flats) launched by HA from 2019—

- (i) for resale in the open market upon payment of premium, owners may re-sell after 10 years from first assignment; and
- (ii) for resale in the Secondary Market (i.e. without payment of premium), owners may re-sell at no more than the original price during the first two years from first assignment, or at freely negotiated prices from the third year from first assignment, to categories of buyers specified by HA.

For HOS, eligible buyers are GF and WF applicants (i.e. successful WF applicants under the White Form Secondary Market Scheme); for GSH, eligible buyers are GF applicants only. In future, HA may vary such specifications as necessary.

20. The revised alienation restrictions strike a reasonable balance between deterring short-term speculations and facilitating the circulation of SSFs. The above revised alienation restrictions are applicable to SSFs launched by HA from 2019 with a “lease approach”, i.e. by incorporating the restrictions into the Government lease and relevant sales documents of SSFs.

Mortgage arrangements for SSFs

21. HA will provide mortgage default guarantee to participating banks or financial institutions which entered into the Deed of Guarantee with HA. After signing the Agreement for Sale and Purchase, a purchaser requiring a

⁸ Owners cannot sell in the open market within five years from first assignment. However, HA will nominate GF applicants of the most recent GSH sale based on their priority order during ballot during the first five years from first assignment, and restrict eligible buyers to only GF applicants for re-sale in the Secondary Market.

mortgage loan to pay the balance of the purchase price should apply to a participating bank or financial institution for a mortgage loan on special concessionary terms specified by HA. Some of the mortgage terms are as follows:

- (i) loan amount not exceeding the balance of the purchase price after deposit; purchasers may borrow up to 95% (for GF applications) or 90% (for WF applicants) of the purchase price of the flats;
- (ii) maximum repayment period of 25 years; and
- (iii) interest rate at a maximum of the Best Lending Rate quoted by the bank or financial institution concerned minus 0.5% per annum.

The application is subject to final approval by the bank or financial institution concerned.

Examining the introduction of tenancy control and rent subsidy targeting at housing for the grassroots

22. The Government has reiterated on various occasions that tenancy control is a highly controversial issue. The Government has studied this subject time and again, but there is yet no consensus in the community over this issue.

23. In 2013, the LTHS Steering Committee (the Steering Committee) launched a public consultation on LTHS. Among other issues, the Steering Committee invited public views on whether tenancy control (including control on rent and security of tenure) should be re-launched. Subsequently, in February 2014, the Steering Committee published the LTHS Report on Public Consultation, which set out that the general public had mixed views on re-launching tenancy control. The Steering Committee was concerned that implementing tenancy control may lead to an immediate increase in rental levels and a reduction in supply of rental units. Given the controversies surrounding tenancy control, the Steering Committee cautioned that clear community consensus had to be secured before any form of tenancy control was contemplated.

24. The Government subsequently conducted a detailed study in Hong Kong's past experience as well as overseas experience in implementing tenancy control, and briefed the Panel as well as listened to public views in July 2014⁹.

⁹ LC Paper No. CB(1)1709/13-14(01).

After considering this study and the views of the Steering Committee, the Government promulgated the LTHS in December 2014 and elaborated its views on tenancy control in paragraphs 6.15 - 6.18 of the LTHS. The Government also attended the joint meetings of the Panel on Housing and Panel on Welfare Services in June and July this year¹⁰ to listen to views from the Legislative Council Members and the public on tenancy control.

25. In sum, empirical findings, both local and overseas, suggest that tenancy control measures often lead to an array of unintended consequences including those to the detriment of the tenants whom the measures seek to assist. The unintended consequences include reducing supply of rented accommodation; limiting access to adequate housing by the socially disadvantaged as landlords have become more selective about their tenants; encouraging certain behaviour from landlords to offset the impact of the tenancy control measures (including charging a higher initial rent and demanding excessive miscellaneous charges); and discouraging proper maintenance of the rented accommodation by landlords.

26. There are views suggesting the Government to implement tenancy control only on units below a certain size or rent. However, as seen from the tenancy control experience of some overseas economies, if tenancy control is imposed only on a particular market sector (often on lower-end residential properties), there may be inadvertent spillover effects on the uncontrolled sector. For example, as some tenants will not be able to rent flats in the controlled sector, they may be forced to seek accommodation in the uncontrolled sector, hence pushing up the rent level of the latter. Besides, some overseas experience suggests that tenancy control has failed to effectively address the housing needs of the grassroots, since control measures often target at specific classes of premises instead of particular groups of households. With the implementation of tenancy control, a prospective tenant may find it difficult to secure a tenancy through the open market, and can only obtain information of rented accommodation through indirect means, which will not be easily accessible by the socially disadvantaged.

27. With regard to rent subsidy, we are concerned that in the midst of the present tight housing supply, such measure may prompt the landlords to increase rent, thereby indirectly turning the rent subsidy into additional rent, leaving the tenants with no effective assistance. Furthermore, providing recurrent rent subsidy to a selected group of tenants may increase the demand for rented accommodation, thereby triggering a rise in rental level and increasing the burden of households who are unable to receive the subsidy due to various reasons.

¹⁰ LC Paper No. CB(1)1052/17-18(01).

28. Weighing the pros and cons, the Government is of the view that introducing tenancy control or rent subsidy amid the current tight housing supply may be counterproductive and will not be in the interest of the grassroots and the general public.

Providing local first-time home buyers with stamp duty concession

29. Maintaining the healthy development of the private residential property market is one of the important objectives of Government's housing policies. To minimise the adverse consequences arising from an exuberant market, the Government has all along been adopting a two-pronged approach: striving to increase land and housing supply to meet demand on one hand; and introducing several rounds of demand-side management measures as and when necessary to suppress external demand, short-term speculative demand and investment demand on the other hand.

30. Any move to relax the demand-side management measures or to provide stamp duty concession may be speculated by the market as a signal from the Government to "water down" the measures or to encourage the public to become home owners, thereby resulting in a more exuberant market. Besides, the suggestion may also stimulate demand for local residential properties, thereby pushing up property prices especially when the current housing supply still lags behind demand. The Government will continue to stay vigilant and closely monitor the development of property market and the evolving external environment, and take appropriate actions as and when necessary with a view to ensuring a healthy development of the property market.

**Transport and Housing Bureau
December 2018**