

**For discussion
on 5 November 2018**

Legislative Council Panel on Housing

Policies and measures consummating the housing ladder

This paper sets out the Government's policies and measures to consummate the housing ladder through addressing the home ownership aspirations of families in different income brackets.

Policy direction

2. The Chief Executive's 2017 Policy Address suggested that the housing policy of the current-term Government comprises four elements. First, housing is not a simple commodity; while maintaining respect for a free market economy, the Government has an indispensable role to play in this area. Second, the Government will focus on home-ownership, and strive to build a housing ladder to rekindle the hope of families in different income brackets to become home-owners. Third, the Government will focus on supply and increase the supply of housing units based on the Long Term Housing Strategy (LTHS). Fourth, when new supply is not yet available, the Government will optimise existing housing resources to help families awaiting public rental housing (PRH) and residents in poor living conditions. The Government is determined to rectify the housing problem currently faced by the society with the greatest effort, and provide adequate and affordable housing to enable Hong Kong people to have comfortable homes and improve their living environment. Increasing supply of public housing, and rekindling hopes of families in different income brackets for home ownership, including the provision of subsidised sale flats (SSFs) to low to middle-income families, are important components of the housing policy.

LTHS

3. The Government announced LTHS in 2014, which adopts the "supply-led" and "flexible" principles, with a view to addressing the problem of housing demand-supply imbalance and rebuilding the housing ladder. LTHS establishes three major strategic directions, including the provision of SSFs and facilitation of their market circulation –

- (a) to provide more PRH units and ensure the rational use of existing resources;
- (b) **to provide more SSFs, expand the forms of subsidised home ownership further, and facilitate market circulation of existing stock;** and
- (c) to stabilise the residential property market through steady land supply and appropriate demand-side management measures, and promote good sales and tenancy practices for private residential properties.

4. According to the framework established under LTHS, the Government will continue to update the long term housing demand projections annually and present a rolling ten-year housing supply target. This enables the Government to plan ahead on a continuing basis and develop land and housing according to the supply target, in order to meet the housing needs of the community over the long term.

5. According to the housing demand projections published in December 2017, the total housing supply target for the ten-year period from 2018/19 and 2027/28 is 460 000 units. With a public/private split of 60:40, the supply targets for public and private housing are 280 000 units and 180 000 units respectively. Assuming that all sites identified can be smoothly delivered on time for housing development, about 237 000 public housing units can be built within this ten-year period, which lags behind the ten-year supply target. 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.

6. The Chief Executive's 2018 Policy Address suggested that the public/private split of the future ten-year housing supply target under LTHS may need to be adjusted. In fact, there are diverse views as to whether the public/private split of new housing supply in the next ten years should be maintained at 60:40. The Government will have full regard to the latest developments and views from various sectors when presenting the next ten-year housing supply target.

7. The Policy Address also pointed out that, with the persistent imbalance in housing demand and supply, prices of private housing had been rising substantially in recent years, and were well beyond the affordability of ordinary families. This had not only brought about a continuous increase in the number of people waiting for PRH and lengthened the average waiting time of family and elderly applicants; but has also led to a continuous increase in the income limits for White Form (WF) applicants of the Home Ownership Scheme (HOS). HOS sale exercises in the past few years were often highly over-subscribed.

The Government will increase the ratio of public housing, and commit to allocating 70% of housing units on the Government's newly developed land to public housing development.

Consummating the housing ladder

Subsidised home ownership

8. For some low to middle-income families, HOS flats and other forms of SSFs serve as their first step for home ownership. SSFs also provide an avenue for better-off PRH tenants to achieve home ownership, thereby releasing PRH resources for those in genuine need.

9. The Government will continue to identify suitable sites and support the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HKHS) to implement HOS and other SSFs projects. According to the forecasts as at September 2018, in the five-year period from 2018/19 to 2022/23, the estimated total production of HA and HKHS's SSFs (excluding Green Form Subsidised Home Ownership Scheme (GSH) flats) is about 26 300 units.

Revising the pricing mechanism for HOS

10. The Chief Executive has announced the revision of the pricing mechanism of HOS in June this year. The new HOS pricing policy has introduced two changes to the affordability test of the existing pricing mechanism –

- (a) using the median monthly household income of non-owner occupier households¹ instead of the WF income limit² for assessing affordability; and
- (b) ensuring at least 75% of flats are affordable (instead of at least 50% formerly).

¹ Around \$39,500 currently, net of Mandatory Provident Fund (MPF) contributions.

² Formerly at \$57,000, net of MPF contributions.

12. All other parameters under the former HOS pricing mechanism remain unchanged, including –

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

13. Furthermore, the “Starter Homes” (SH) pilot project and GSH will be priced in accordance with the new HOS pricing mechanism³. 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.

HOS

14. In response to the home ownership aspirations of low to middle-income families, the Government announced in 2011 the resumption of HOS. Since 2014, HA and HKHS have put up a total of around 13 000 new HOS/Subsidised Sale Flats Projects flats⁴ for pre-sale. The response was overwhelming.

15. For Sale of HOS Flats 2018 (HOS 2018)⁵, HA has approved to adopt the new pricing mechanism stated in paragraph 10 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 HOS 2018 in October 2018, and received around 110 000 extra applications (around 260 000 applications were received in total). Balloting will be conducted in November.

³ 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.

⁴ Including HA’s Sale of HOS Flats 2014, 2016, 2017 and 2018, and HKHS’s Subsidised Sale Flats Projects (i.e. Greenhill Villa launched in 2016 and Mount Verdant and Terrace Concerto launched in 2017).

⁵ Involving some 4 400 flats.

GSH

16. HA has helped more relatively better-off Green Formers (mainly PRH households and PRH applicants who have passed the detailed eligibility vetting) move up the housing ladder through GSH. GSH on one hand addresses Green Formers' home ownership aspirations at an earlier stage. On the other hand, it also vacates more PRH units to those with more pressing needs.

17. HA launched the GSH pilot project in San Po Kong (i.e. King Tai Court) in October 2016, involving 857 flats. All the flats were sold by February 2017. HA's Subsidised Housing Committee (SHC) endorsed regularising GSH in January 2018 having regard to the outcome of the review of the GSH pilot project. However, SHC Members considered it prudent to implement GSH at a more modest pace to gather experience, so as to reduce risk of unsold flats and minimise impact on the waiting time for PRH applicants. The next GSH project at Lai Chi Kok Road - Tonkin Street Phase 1, involving some 2 500 flats, is expected to be launched in end-2018, and will provide further home ownership opportunities for Green Formers.

18. HA will continue to make reference to the site selection criteria as previously adopted for the GSH pilot project in assessing PRH projects in the pipeline⁶, with a view to selecting sites for conversion into GSH projects in future.

White Form Secondary Market Scheme (WSM)

19. In the past, SSFs with premium unpaid in the Secondary Market can only be sold to Green Formers. To address the home ownership aspirations of WF applicants, HA launched two rounds of the Interim Scheme to Extend the Secondary Market to WF Buyers in January 2013 and August 2015 respectively. Through the two rounds of Interim Scheme, over 4 000 WF buyers achieved home ownership.

⁶ HA has endorsed making reference to the following principles adopted for the GSH pilot project in selecting sites for GSH –

- (a) while a site may include certain public facilities, it should not contain public facilities that will incur very high management and/or maintenances fees;
- (b) the conversion of a PRH site to GSH development should not result in substantive changes to the original planning;
- (c) the site should preferably be a standalone one, or can be easily carved out from a PRH development; and
- (d) any PRH development that will be completed shortly is not suitable.

20. SHC conducted a review in November 2017 and endorsed launching WSM on an on-going basis from 2018 onwards. The WSM 2018, with a quota of 2 500, was launched in March 2018. Over 60 000 applications were received. HA conducted balloting on 30 July 2018 and informed successful applicants to apply for a Certificate of Eligibility to Purchase with a validity period of 12 months in October 2018.

SH pilot project

21. SH aims to help higher-income families which are not eligible for HOS and yet cannot afford private housing to meet their home ownership aspirations when property prices remain high. We initially proposed to use a residential site at Anderson Road on the Government's 2018-19 Land Sale Programme 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, the Government announced in June this year to test out the SH concept earlier by inviting the Urban Renewal Authority (URA) to assign its redevelopment project at Ma Tau Wai Road as a SH pilot project.

22. The Ma Tau Wai Road project can provide 450 SH units with flat sizes between 24m² (260ft²) and 47m² (507ft²). The pre-sale exercise of the project will be launched in December 2018 the soonest. URA endorsed the major eligibility criteria and alienation restrictions of the Ma Tau Wai Road project on 23 October this year, and will submit the "assessed market values", discount rate and discounted selling prices of all SH units for the Government's approval in November. Details of sale arrangements are expected for announcement by the end of this year.

Private residential property market

Latest situation of the property market

23. Having stayed buoyant in the first half of 2018, the residential property market showed some cool-off since August. Weighed by the increasing headwinds in the external environment, global financial market volatilities and interest rate hikes by local banks, trading activities quietened down visibly in recent months and flat prices also softened. The monthly average number of agreements for sale and purchase of residential property in August and September 2018 was around 4 200, below the monthly average of 5 700 in the first seven months of 2018. Although the overall flat price index declined by 0.1% in August and further by 1.4% in September, a cumulative increase of 10.2% was recorded during the first nine months of 2018.

24. The Government will continue to adopt a two-pronged approach to maintain the healthy and stable development of the private residential property market. To address the demand-supply imbalance at source in the long run, the Government has strived to increase the housing land supply through short, medium and long-term means under the “supply-led” strategy of LTHS. At the same time, the Government has opportunely introduced demand-side management measures to minimise various adverse consequences that may arise from an overheated market.

Increase in supply

25. Through sustained efforts of the Government, private housing supply has been increasing steadily. Based on the preliminary assessment of private residential developments known to have started or to be started on disposed sites, the private sector will, on average, produce about 20 300 private residential units annually in the next five years, representing an increase of about 70% over the yearly average (12 000 units) of the past five years. The Government will continue rolling out housing land to ensure sufficient and stable land supply in the long term to respond to the home ownership aspirations of different social strata.

26. Two of the new initiatives on housing announced by the Chief Executive on 29 June this year aim to encourage more timely supply of first-hand private residential flats. The two initiatives are the introduction of “Special Rates” on vacant first-hand private residential units, and amendment to the Lands Department (LandsD) Consent Scheme to improve sales practices.

Introducing “Special Rates” on vacant first-hand private residential units

27. The Government will amend the Rating Ordinance (Cap. 116) to introduce “Special Rates” on vacant first-hand private residential units. The amendment will require owners (mainly developers) of first-hand private residential units with the Occupation Permit issued for 12 months or more to furnish annual returns to the Government on the 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 Rating and Valuation Department annually at two times (i.e. 200%) the rateable value of the units concerned. The Government plans to introduce an Amendment Bill into the Legislative Council during the 2018-19 legislative session. “Special Rates” will take effect after gazettal of the Amendment Ordinance following passage of the Amendment Bill in the Legislative Council.

28. Although “Special Rates” has not been implemented, we note that developers have become more proactive in selling their first-hand private flats in completed projects since the announcement of the new initiative. As at 30 September 2018, there were about 8 900 unsold first-hand private residential units in completed projects, 300 units less than the figure in the last quarter as at 30 June 2018 (9 200 units). We will continue to monitor the market situation.

Amending the LandsD Consent Scheme to improve sales practices

29. To improve market transparency and enhance consumer protection, the Government has amended the Consent Scheme, requiring developers to offer for sale 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. The new requirement has come into effect on 29 June 2018, and applies to pre-sale consent applications being processed by LandsD at that time and all new applications received after that date. Since the implementation of the new requirement, as at 30 September 2018, LandsD has issued 12 pre-sale consents for residential developments involving 6 979 residential units, which is record-high since the first quarter of 2005. Four of the developments have been launched for sale and the relevant sale exercises are in compliance with the new requirement. LandsD and the Sales of First-hand Residential Properties Authority will continue to monitor pre-sale activities to ensure orderly implementation.

Demand-side management measures

30. In view of the overheated property market in recent years owing to severe housing demand-supply imbalance and the ultra-low interest rates environment with abundant liquidity, the Government has introduced several rounds of demand-side management measures, including the Special Stamp Duty (SSD), Buyer's Stamp Duty (BSD), Doubled ad valorem Stamp Duty (DSD), and New Residential Stamp Duty (NRSD), so as to combat short-term speculative activities, curb external demand and reduce investment demand. In face of the continued exuberance in the local housing market and that property prices have been out of line with economic fundamentals with heightened risk of a bubble, it is necessary for the Government to maintain the various demand-side management measures to guard against further increase in the risk, and to ensure the healthy and stable development of the property market.

31. The existing demand-side management measures remain prominently effective in reducing short-term resale, as well as external and investment demands, thereby benefiting local buyers with genuine home ownership needs. According to the statistics of the Inland Revenue Department, purchases by non-local individuals and non-local companies stayed low at 1.2% of total residential property transactions in the first nine months of this year, much lower than the monthly average of 4.5% in January to October 2012 (i.e. before the introduction of BSD). Short-term resale (including confirmor transactions and resale with 24 months) accounted for 1.1% of total transactions during the same period, well below the average of 20% in January to November 2010 (i.e. before the introduction of SSD). Furthermore, residential transactions subject to DSD/NRSD accounted for about 11% of total transactions for the first nine months of this year, which was sharply below the 26% from January to November 2016 (reflecting market situation before the introduction of NRSD). During the same period, among residential property transactions where buyers are Hong Kong permanent residents, about 93% of the cases involved buyers who did not own any other residential property in Hong Kong at the time of transaction, which was significantly higher than the 75% before the introduction of NRSD (i.e. from January to November 2016).

32. The Government will remain vigilant and will continue to closely monitor developments in the property market and the evolving external environment.

**Transport and Housing Bureau
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