

**For discussion
on 4 March 2019**

Legislative Council Panel on Housing

**Review of the Income and Asset Limits
for Public Rental Housing for 2019/20**

PURPOSE

This paper updates and seeks Members' views on the outcome of the review of the income and asset limits for public rental housing (PRH) for 2019/20.

THE REVIEW

2. The outcome of the review is set out in the Memorandum for the Hong Kong Housing Authority's Subsidised Housing Committee (SHC) at **Annex**. In gist, the proposed PRH income and asset limits for 2019/20 will increase by an average of 4.2% and 3.1% respectively over those for 2018/19.

3. We will consolidate Members' views for SHC's consideration when it discusses the review of income and asset limits for PRH for 2019/20 at its meeting on 15 March 2019.

**Transport and Housing Bureau
February 2019**

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

**Review of the Income and Asset Limits
for Public Rental Housing for 2019/20**

PURPOSE

This paper seeks Members' endorsement of the proposed income and asset limits for public rental housing (PRH) for 2019/20.

RECOMMENDATION

2. It is recommended, that based on the established mechanism, the proposed PRH income and asset limits (as set out in paragraphs 11, 15 and **Annex B**) be adopted for 2019/20.

BACKGROUND

3. It is the Hong Kong Housing Authority (HA)'s objective to provide PRH to low-income families who cannot afford to rent private accommodation. The eligibility of PRH applicants is determined by, among others, the PRH income limit, which represents the household income needed to rent private accommodation comparable to PRH while also meeting other non-housing expenditure. Households with income and assets below the prescribed limits are deemed to be low-income families who are unable to afford renting private accommodation, and hence are eligible for PRH^{Note 1}. The limits are assessed annually to keep them in line with the prevailing socio-economic circumstances.

Note 1 Applicants also need to meet other eligibility criteria for PRH (e.g. applicants and their family members must not possess any domestic properties in Hong Kong; at least half of the family members included in the application must have lived in Hong Kong for seven years and are still living in Hong Kong at the time of allocation, etc.).

REVIEW OF THE INCOME LIMITS

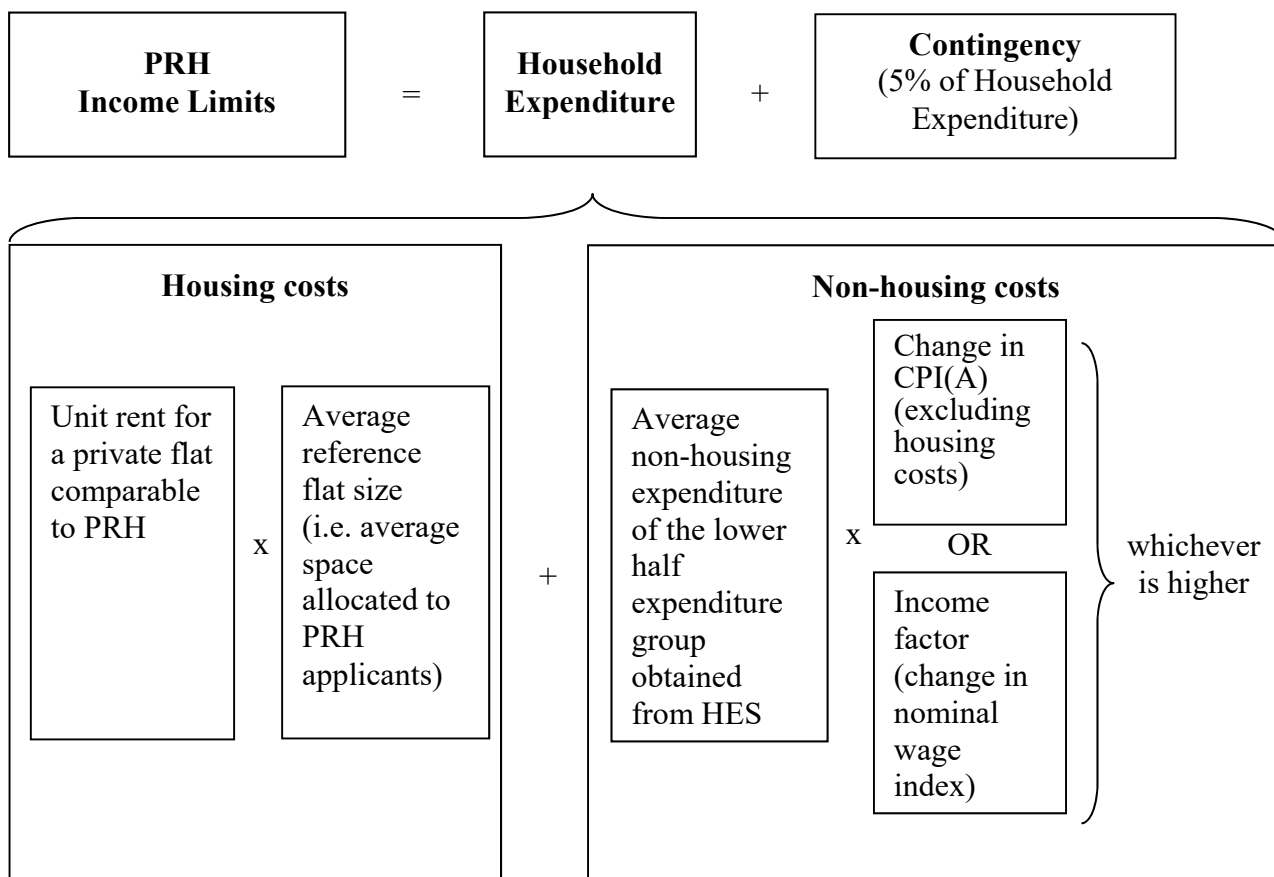
Review mechanism

4. Under the established mechanism, the PRH income limits are derived using a household expenditure approach, which consists of housing costs and non-housing costs, plus a contingency provision. Housing costs measure the costs of renting a private flat comparable to PRH, and these depend on the differential unit rents of private accommodation and reference flat sizes. The non-housing costs are determined with reference to the latest Household Expenditure Survey (HES) regularly conducted by the Census and Statistics Department (C&SD)^{Note 2} with adjustments made according to the latest movement in the Consumer Price Index (CPI)(A)(excluding housing costs), or the change in the nominal wage index obtained through the Labour Earnings Survey (LES) conducted by C&SD as the income factor^{Note 3}, whichever is higher. The PRH income limits for different household sizes are the respective sums of the above two major cost items, plus a 5% contingency provision^{Note 4}. The mechanism is summarised in the following diagram –

Note 2 This refers to the HES 2014/15 released in April 2016. C&SD conducts HES once every five years to collect up-to-date information on the expenditure patterns of households in Hong Kong.

Note 3 The Subsidised Housing Committee (SHC) approved at its meeting on 7 February 2013 the refinement to the mechanism for reviewing the PRH income limits, whereby the change in nominal wage index was introduced as the income factor to reflect changes in income (including implementation and changes of the statutory minimum wage (SMW)) in a timely manner before HES results are updated. The change in nominal wage index was considered to be a suitable yardstick to gauge changes in income of the PRH target group and to reflect the impact of SMW on income, because it covers occupational groups at non-managerial/professional levels (e.g. technical, clerical, service workers and craftsmen) who are most likely to be the potential applicants for PRH.

Note 4 Following established practice, the PRH income limits are rounded to the nearest ten.



5. The movements of the key parameters over the past year in the review of PRH income limits are set out as follows –

Table 1

Parameters		Review for 2018/19	Review for 2019/20
(a)	Differential unit rents of private flats (per m ² Internal Floor Area (IFA))	<u>4Q 2017</u>	<u>4Q 2018</u>
-	1-person	\$357	\$360
-	2-person	\$322	\$351
-	Overall	\$321	\$336
(b)	Reference flat size ^{Note 5}	<u>2014/15 – 2016/17</u>	<u>2015/16 – 2017/18</u>
-	1-person	14.9 m ²	14.9 m ²
-	2-person	22.4 m ²	22.4 m ²
-	3-person	29.9 m ²	30.0 m ²
-	4-person	35.1 m ²	35.4 m ²
-----	(Details of other household sizes are set out at Annex A)		
(c)	Change in CPI(A)(excluding housing cost) as compared with the same quarter of previous year	<u>4Q 2017</u> +1.2%	<u>4Q 2018</u> +2.4%
(d)	Change in nominal wage index as compared with the same quarter of previous year ^{Note 6}	<u>3Q 2017</u> +3.7%	<u>3Q 2018</u> +4.1%

Note 5 The reference flat sizes are based on the average space (in terms of IFA) of flats allocated to PRH applicants in the past three years. All Home Ownership Scheme (HOS) flats which were converted to PRH and three-bedroom flats allocated to 4-person households are excluded from the calculation. This is because the basis for assessing housing costs is to assess the cost of renting a private flat comparable to PRH. It is therefore not appropriate to include those flats converted from HOS to PRH and the three-bedroom flats allocated to 4-person households into our calculation of the reference flat sizes, taking into account the fact that these flats were not designed and allocated according to the normal PRH standards. At its meeting on 17 March 2017, SHC agreed to revise the allocation standard for PRH units completed in early years and flats converted to PRH units from HOS/Private Sector Participation Scheme flats by adopting the current allocation standard of not less than 7m² IFA per person. By doing so, more of such recycled flats of bigger size can be released for allocation to applicants of larger family size. We will make relevant adjustments in future reviews of PRH income limits as appropriate.

Note 6 As the summary statistics of LES are presented in the Quarterly Report of Wage and Payroll Statistics published by C&SD in March, June, September and December each year, SHC agreed at its meeting on 7 February 2013 that a yearly comparison can be made by using figures published in December (i.e. the nominal wage index in the third quarter) to tie in with the established schedule for conducting the review of PRH income and asset limits for the new limits to come into effect on 1 April every year.

Housing costs

6. Under the established mechanism, housing costs are the costs required for a household to rent a private flat of comparable size to PRH. The exact figure is obtained by multiplying the reference flat size (i.e. average space allocated to PRH applicants in the past three years) by a unit rent of private dwellings (from the Rent Survey regularly conducted by C&SD) as shown in Table 1 above. In calculating the housing costs of 1-person and 2-person households, the respective differential unit rent or the overall average unit rent, whichever is higher, is adopted. For households of three persons or above, the overall average unit rent is adopted.

7. Details of the housing costs derived are shown in Table 2 below –

Table 2

Housing costs	Review for 2018/19	Review for 2019/20	% change
- 1-person	\$5,319	\$5,364	+0.8%
- 2-person	\$7,213	\$7,862	+9.0%
- 3-person	\$9,598	\$10,080	+5.0%
- 4-person	\$11,267	\$11,894	+5.6%

(Details of other household sizes are set out at **Annex A.**)

Non-housing costs

8. Following the established mechanism, this year's review adopted the non-housing expenditure statistics from the latest HES (i.e. 2014/15 HES) of the lower half expenditure group among tenant households in the private sector, excluding those households comprising solely elderly or non-working members. For the change in CPI(A)(excluding housing costs), the latest figure as at the fourth quarter of 2018 is +2.4%. As at the third quarter of 2018, the yearly change in nominal wage index (i.e. compared to the third quarter of 2017) is +4.1%. As the yearly change in nominal wage index (+4.1%) is higher than the yearly change in CPI(A)(excluding housing costs) (+2.4%), the change in nominal wage index is adopted to adjust the non-housing costs obtained from HES.

9. Details of the non-housing costs derived are shown in Table 3 below –

Table 3

Non-housing costs	Review for 2018/19	Review for 2019/20	% change
- 1-person	\$5,669	\$5,901	+4.1%
- 2-person	\$9,549	\$9,941	+4.1%
- 3-person	\$11,370	\$11,836	+4.1%
- 4-person	\$15,323	\$15,951	+4.1%

(Details of other household sizes are set out at **Annex A.**)

Total household expenditure

10. The total household expenditure, which is the sum of the housing costs and non-housing costs, is shown in Table 4 below –

Table 4

Total household expenditure	Review for 2018/19	Review for 2019/20	% change
- 1-person	\$10,988	\$11,265	+2.5%
- 2-person	\$16,762	\$17,803	+6.2%
- 3-person	\$20,968	\$21,916	+4.5%
- 4-person	\$26,590	\$27,845	+4.7%

(Details of other household sizes are set out at **Annex A.**)

Proposed PRH income limits for 2019/20

11. Based on the above factors and adding in a contingency provision of 5% of household expenditure, the PRH income limits for 2019/20 as calculated according to the established methodology are tabulated below –

Table 5^{Note 7}

	Existing PRH income limits for 2018/19	Proposed PRH income limits for 2019/20	% change
- 1-person	\$11,540 (\$12,147)	\$11,830 (\$12,453)	+2.5%
- 2-person	\$17,600 (\$18,526)	\$18,690 (\$19,674)	+6.2%
- 3-person	\$22,390 (\$23,568)	\$23,010 (\$24,221)	+2.8%
- 4-person	\$27,920 (\$29,389)	\$29,240 (\$30,779)	+4.7%

(Details of other household sizes are set out at **Annex A**.)

(Overall: +4.2%)

12. If the above PRH income limits for 2019/20 are adopted, there will be on average an overall increase of 4.2% over the 2018/19 level. Detailed calculation of the proposed PRH income limits for 2019/20 is set out at **Annex A**. Details of the proposed PRH income limits for various household sizes are set out at **Annex B**.

REVIEW OF THE ASSET LIMITS

Review mechanism

13. Under the established mechanism, the PRH asset limits are adjusted with reference to the movements in CPI(A) over the year^{Note 8}. In 2005, SHC agreed to set the asset limits for elderly households at two times the limits for non-elderly applicants. In 2006, SHC further endorsed that the asset limits for 2005/06 should be adopted as the basis for future annual adjustments with reference to the movements in CPI(A).

Note 7 Statutory contributions under the Mandatory Provident Fund (MPF) Scheme are deductible from a household's income when applying for PRH. In other words, the PRH income limits should apply to their household income net of MPF contributions. For households contributing 5% of their income under MPF, the effective income limits inclusive of their statutory MPF contribution (= income limits ÷ 95%) are shown in brackets in the table.

Note 8 Following established practice, the PRH asset limits are rounded to the nearest thousand.

Key parameter

14. The movements of the key parameter (i.e. CPI(A)) over the year for the review of PRH asset limits are set out as follows –

Table 6

Parameter	Review for 2018/19	Review for 2019/20
	<u>4Q 2017</u>	<u>4Q 2018</u>
Change in CPI(A) as compared with the same quarter of previous year	+1.6%	+3.1%

Proposed PRH asset limits for 2019/20

15. Using the established review mechanism, we propose an adjustment to the existing PRH asset limits following the 3.1% increase in overall CPI(A). The proposed PRH asset limits for 2019/20 are summarised below –

Table 7

	Existing PRH asset limits for 2018/19	Proposed PRH asset limits for 2019/20
- 1-person	\$249,000	\$257,000
- 2-person	\$338,000	\$348,000
- 3-person	\$440,000	\$454,000
- 4-person	\$514,000	\$530,000
		(Overall : +3.1%)

16. Details of the proposed PRH asset limits of various household sizes are set out at **Annex B**.

17. The proposed income and asset limits are generally higher than the existing levels, hence should theoretically cover more households. However, we are unable to estimate the number of additional households who will apply for PRH due to the new limits. Analysing only the income level based on the results of C&SD's General Household Survey as at the fourth quarter of 2018, some 161 600 non-owner occupied households living in private housing (31.1% of the total number of non-owner occupied households living in private housing) would meet the new income criterion. However, this number has included

households who have already applied for PRH, as well as those who can meet the income criterion but not other eligibility criteria for PRH. Such criteria include the asset limits, domestic property ownership in Hong Kong, years of residence in Hong Kong, etc.

INCOME AND ASSET LIMITS UNDER THE “WELL-OFF TENANTS POLICIES”

18. At present, under the Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources (collectively known as “well-off tenants policies”), households who have resided in PRH for ten years are required to declare their income and assets biennially. Households who have resided in PRH for ten years or above with an income level exceeding the prescribed limits need to pay additional rent^{Note 9}; those with income or assets exceeding the prescribed limits (i.e. exceeding five times and 100 times of the PRH income limits respectively), or with private domestic property ownership in Hong Kong, need to move out of PRH^{Note 10}. The income and asset limits under the “well-off tenants policies” are multiples of PRH income limits and will be adjusted according to the revised PRH income limits in April every year.

19. If the proposed PRH income limits for 2019/20 are endorsed, the income and asset limits under the “well-off tenants policies” will be adjusted accordingly.

Note 9 Those with household income equivalent to two to three times of the PRH income limits are required to pay 1.5 times net rent plus rates. Those with household income equivalent to three to five times of the PRH income limits are required to pay double net rent plus rates.

Note 10 Under the existing policy, households exceeding the prescribed income or asset limits, or with private domestic property ownership in Hong Kong, are required to vacate their PRH flats within 12 months, during which double net rent plus rates or market rent, whichever is the higher, is charged.

PUBLIC REACTION AND PUBLICITY

20. It is expected that the review of PRH income and asset limits will attract media and public attention. We consider that as the proposed PRH income and asset limits for 2019/20 are the results of a well-established review mechanism and careful consideration, they should be generally acceptable to the public at large. A press release will be issued to announce the outcome of this review.

DISCUSSION

21. At the SHC meeting to be held on 15 March 2019, Members will be invited to endorse the recommendation as set out in paragraph 2. In line with past practice, the Government will update the Legislative Council Panel on Housing on the outcome of the review at its meeting on 4 March 2019. We will consolidate Housing Panel's views and make a submission to SHC for its consideration at the meeting on 15 March 2019.

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(Strategy Division)
Date of Issue : 25 February 2019

Proposed PRH Income Limits for 2019/20

A. Housing expenditure

- Derived by multiplying the reference flat sizes by the corresponding unit rent
- The reference flat sizes refer to the average space (in terms of IFA) of the flats allocated to the PRH applicants from 2015/16 – 2017/18 ^{Note 1}
- Unit rents are derived from the rental levels of tenant households in private residential units according to C&SD's Rent Survey in the fourth quarter of 2018, covering those private flats with saleable area of 69.9m² or below and with adjustment to unit rent per IFA

Household Size	Unit Rent (\$/m ² IFA)
1	360
2	351
Overall Average	336

B. Non-housing expenditure

- Based on the expenditure patterns and levels of tenant households in private housing in the lower half expenditure group from the 2014/15 HES and adjusted by the change in CPI(A)(excluding housing costs) or the change in nominal wage index, whichever is higher.

C. Details of proposed income limits

Household size	Reference flat sizes ^{Note 1}	Housing costs	Non-housing costs	Total household expenditure	Plus 5% contingency provision	Proposed income limits	Existing income limits	Change	
	(m ² , IFA)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(%)
1-person	14.9	5,364	5,901	11,265	11,828	11,830	11,540	290	+2.5
2-person	22.4	7,862	9,941	17,803	18,693	18,690	17,600	1,090	+6.2
3-person	30.0	10,080	11,836	21,916	23,012	23,010	22,390	620	+2.8
4-person	35.4	11,894	15,951	27,845	29,237	29,240	27,920	1,320	+4.7
5-person	38.4	12,902	20,695	33,597	35,277	35,280	33,920	1,360	+4.0
6-person	44.7	15,019	21,940	36,959	38,807	38,810	37,330	1,480	+4.0
7-person	53.2	17,875	24,553	42,428	44,549	44,550	42,700	1,850	+4.3
8-person	60.8	20,429	27,014	47,443	49,815	49,820	47,740	2,080	+4.4
9-person	68.4	22,982	29,345	52,327	54,943	54,940	52,650	2,290	+4.3
10-person or above	76.0	25,536	31,559	57,095	59,950	59,950	57,450	2,500	+4.4
Average	-	-	-	-	-	-	-	-	+4.2
Number of non-owner occupied households living in private housing and meeting the proposed PRH income limits ^{Note 2}						No. of households		Change	
						Proposed income limits	Existing income limits	(no. of households)	(%)
1-person						51 100	51 100	-	-
2-person or above						110 500	104 700	5 800	+5.5%
Total						161 600	155 800	5 800	+3.7%
As a % of total number of non-owner occupied households living in private housing in Hong Kong ^{Note 2}						31.1%	30.0%		

- Note 1 Flats converted from HOS to PRH and three-bedroom flats allocated to 4-person households are excluded from the calculation of reference flat sizes. Reference flat sizes for 1-person to 6-person households are the average size of PRH units actually allocated to these households in the past three years. For households of 7 persons or above, there will be very large fluctuations in the reference flat sizes since the number of cases in each of these household sizes is relatively small. Therefore, starting from 2016/17, the respective reference flat sizes for households of 7 persons or above are obtained by multiplying the average size per person (calculated by grouping all PRH allocations to these households in the past three years) by the relevant household sizes.
- Note 2 Those households with household income equal to or below the income limits would be regarded as being eligible for PRH. According to the results of C&SD's General Household Survey in the fourth quarter of 2018, the total number of non-owner occupier households (including those whose accommodation is provided by employers/relatives/friends) living in private housing is estimated to be around 519 100.

Proposed PRH Income and Asset Limits for 2019/20
(as compared with 2018/19)

Household Size	Existing PRH Income Limits for 2018/19*	Proposed PRH Income Limits for 2019/20*	Existing PRH Asset Limits for 2018/19^	Proposed PRH Asset Limits for 2019/20^
1-person	\$11,540 (\$12,147)	\$11,830 (\$12,453)	\$249,000	\$257,000
2-person	\$17,600 (\$18,526)	\$18,690 (\$19,674)	\$338,000	\$348,000
3-person	\$22,390 (\$23,568)	\$23,010 (\$24,221)	\$440,000	\$454,000
4-person	\$27,920 (\$29,389)	\$29,240 (\$30,779)	\$514,000	\$530,000
5-person	\$33,920 (\$35,705)	\$35,280 (\$37,137)	\$571,000	\$589,000
6-person	\$37,330 (\$39,295)	\$38,810 (\$40,853)	\$618,000	\$637,000
7-person	\$42,700 (\$44,947)	\$44,550 (\$46,895)	\$660,000	\$680,000
8-person	\$47,740 (\$50,253)	\$49,820 (\$52,442)	\$692,000	\$713,000
9-person	\$52,650 (\$55,421)	\$54,940 (\$57,832)	\$764,000	\$788,000
10-person or above	\$57,450 (\$60,474)	\$59,950 (\$63,105)	\$823,000	\$849,000

* Figures in brackets denote the effective income limits inclusive of the statutory MPF contribution for households contributing 5% of their income under MPF.

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