

**For discussion
on 8 November 2019**

Legislative Council Panel on Housing

**Housing-related Initiatives in the
Chief Executive's 2019 Policy Address and Policy Address Supplement**

On 16 October 2019, the Chief Executive delivered the Chief Executive's 2019 Policy Address (the Policy Address). This paper introduces the housing-related initiatives as stated in the Policy Address and the Policy Address Supplement.

Housing policy

2. 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.

3. The Government will continue to strive to resolve the housing problem currently faced by the society with the greatest effort. In this connection, the Government in recent years has made solid progress in the implementation of the following housing policies and measures -

- (a) Revised the public/private split of new housing supply for the 10-year period from 2019-20 to 2028-29 from 60:40 to 70:30 (please refer to para. 16-17) ;

- (b) Enriched the housing ladder to address the housing needs of families in different income brackets (please refer to para. 18);
- (c) Further launched policies and measures to expedite and increase public housing supply (please refer to para. 19-20);
- (d) Implemented various schemes for the effective use of public housing resources (please refer to para. 21-25);
- (e) Established a Task Force on Transitional Housing to promote the development of transitional housing; and
- (f) Introduced measures to maintain the healthy development of the private residential property market (please refer to para. 26-31).

Measures in the Policy Address

4. Identifying land to increase housing supply is the fundamental solution to the long-term housing issue. Increasing public housing supply to address demands of the public ultimately depends on the pace of increasing land supply. As it takes time to identify land for housing development, before reaching the long term goal of providing sufficient land supply, the following short- and medium-term support measures were put forward in the Policy Address -

Exploring the feasibility of redeveloping the factory estates for public housing

5. The Government is currently undertaking the legislative process of the Fire Safety (Industrial Buildings) Bill for improving the fire safety standards of industrial buildings constructed before 1987. All the six factory estates, with a total of about 8 000 units, under the Hong Kong Housing Authority (HA), will be regulated under the new ordinance. By HA's estimation, the fire safety improvement works required after the enactment of the Bill would be extensive, costly and lengthy, which would inevitably affect the business operation of the tenants. Therefore, the Chief Executive has invited HA to take this opportunity to actively explore the feasibility of redeveloping individual factory estates for public housing use, particularly to increase the supply of PRH units, taking into account individual site conditions and arrangements. HA will, upon completion of the review, announce the findings and recommendations at an appropriate juncture.

Accelerating the sale of Tenants Purchase Scheme (TPS) flats

6. TPS was introduced in early 1998 and terminated in 2005. Sitting tenants in the unsold flats in the 39 TPS estates may still purchase the flats they are living in, which are currently on average priced at about 20% of their assessed market values. At present, among the 180 000 flats in the 39 TPS estates, there are about 42 000 unsold flats (23%). The Chief Executive proposed that HA make active preparation with a view to accelerating the sale of these flats, so as to further meet the home ownership aspirations of PRH tenants, and solve the estate management and maintenance problems in TPS estates arising from mixed ownership.

7. A number of options can be explored, including putting up the about 1 200 PRH units recovered from TPS tenants annually, which would have been used for rental purpose¹, for sale to Green Formers; and providing a greater incentive to the TPS flat sitting tenants to buy their own flats. The Government plans to consult the Panel in the first quarter of next year on the suggestions of feasible measures for accelerating the sale for HA's consideration.

Expediting the sale of Home Ownership Scheme (HOS) and Green Form Subsidised Home Ownership Scheme (GSH) flats

8. Following the announcement of the new pricing policy in June 2018, a total of about 7 000 HOS and GSH flats were sold in 2018, while a total of about 8 600 HOS and GSH flats have been launched for sale in 2019.

9. In the light of the recommendations in the Policy Address, HA will actively explore the possibility of putting up a total of about 12 000 HOS and GSH flats under construction for pre-sale in 2020 in order to meet the home ownership aspirations of the public as soon as possible. As always, HA decides on the projects to be launched for pre-sale having taken into consideration such factors as whether the developments have reached the saleable stage, their geographical distribution, the suitability of the site selected and so on. By experience, it is estimated that HA may be able to decide on the developments to be put up for pre-sale under HOS 2020 in early next year and those under GSH 2020 in the fourth quarter of 2020.

¹ Under the current policy, PRH flats recovered from TPS estates will be re-allocated to PRH applicants.

Increasing the annual quota for White Form Secondary Market Scheme (WSM)

10. The continuous increase in the oversubscription rate of WSM in recent years, i.e. from about 12 times for the Interim Scheme in 2013 to about 44 times for WSM 2019, has reflected a keen demand among the White Formers for home ownership. In light of this, HA has already increased the annual quota for WSM from 2 500 in 2018 to 3 000 in 2019. To meet the home ownership aspirations of more White Formers. It is suggested in the Policy Address that HA should consider further increasing the annual quota for WSM in 2020. Based on past practices, it is anticipated that HA will have a discussion on the level of demand of WSM, its utilisation and so on in the first quarter of next year. HA will decide on the annual quota for WSM 2020 accordingly.

Launching the second pilot project of “Starter Homes” (SH) for Hong Kong residents

11. The Urban Renewal Authority (URA) successfully launched the first SH pilot project at Ma Tau Wai Road last year. In view of the public’s keen demand for SH units and positive response in the community to the SH concept, the Government has decided to implement the second SH pilot project by putting up a site on Anderson Road in Kwun Tong² for sale to test out the arrangements of enlisting private developers to provide SH units. The developer will be required under land sale conditions to pursue mixed development in the site, and offer about 1 000 SH units for sale at below-market prices to eligible applicants specified by the Government in addition to building private housing units. We will draw reference from the Ma Tau Wai Road pilot project in formulating the eligibility criteria and alienation restrictions. We plan to put up the site for sale and announce the project details in the first quarter of 2020.

² The site on Anderson Road was originally planned for developing private residential units. The Chief Executive’s 2017 Policy Address announced that the site has been reserved for launching SH pilot project.

Increasing the number of transitional housing projects substantially

12. It was also stated in the Policy Address that there should be a substantial increase in the number of transitional housing projects for assisting those in need. As at September 2019, there were around 620 units in the existing domestic buildings completed for eligible tenants. The Task Force on Transitional Housing under Transport and Housing Bureau (THB) has also provided assistance for nine projects already announced, in which a total of approximately 960 flats can be provided. The Government is now examining the site selection of certain large-scale transitional housing projects as well as their feasibility, which include the sites lent by developers. Subject to the progress of the relevant procedures, and, having taken into account the 1 580 units currently occupied by the tenants and announced by the Government, we anticipate that a total of about 10 000 transitional housing units can be built within a period of three years. The funding for subsidising transitional housing projects earmarked by the Government has also been increased from \$2 billion announced earlier to \$5 billion. The proposed measures are scheduled for discussion at the Panel meeting on 4 November 2019.

Other measures

13. To alleviate the hardship faced by the grassroots, the Policy Address has also put forward a proposal to invite the Community Care Fund to launch two rounds of “one-off living subsidy” for the low-income households not living in PRH and not receiving Comprehensive Social Security Assistance in the next financial year. The Secretary for Labour and Welfare will take the lead in the study of the provision of cash allowance on a regular basis, which is expected to be completed towards the end of 2020. THB will actively support the conduct of the study from the housing policy perspective.

14. The Policy Address has also put forward other related measures, including requesting URA to actively provide more SH or other types of subsidised sale flats (SSFs), and earmarking some of the resumed sites under the Civil Servants’ Co-operative Building Society Scheme for public housing development. The Development Bureau will follow up on these measures. Furthermore, in order to provide assistance to first-time home buyers, the HKMC Insurance Limited has announced raising the cap on the value of the properties under its Mortgage Insurance Programme. The Government has already briefed the Panel on Financial Affairs on the related issues.

Ongoing policies and initiatives

15. In addition to the above short-term and medium-term support measures mentioned in the Policy Address, the Government will continue to implement LTHS, consummate the housing ladder, increase housing supply, make use of public housing resources effectively and maintain the healthy development of the private residential property market in an effort to help more households in Hong Kong to meet their housing goals.

Continue the implementation of LTHS

16. 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. According to the framework established under LTHS, the Government continues to update the long term housing demand projections annually and presents a rolling 10-year housing supply target. This enables the Government to constantly plan ahead and develop land and housing according to the supply target, in order to meet the housing needs of the community over the long term. The Government will remain committed to increasing public housing supply on the basis of LTHS.

17. The Government is now working on the housing demand projections for the next 10-year period (2020-21 to 2029-30). We plan to announce the results later this year and report to the Panel early next year.

Housing ladder

18. A robust housing ladder offers a safety net for the grassroots and low-income households to address their housing needs, and allows those who are relatively well-off to move up the housing ladder. The Government will endeavour to enhance the housing ladder by, among other things, implementing the short-term and medium-term support measures proposed in the Policy Address (paragraphs 5 to 12 above). The following are the latest updates on the Government-subsidised housing part of the housing ladder -

- (a) **PRH** is a long-established safety net for the grassroots and low-income families. As at end-June 2019, there were about 147 900 family and elderly applications with an average waiting time³ (AWT) of 5.4 years. Besides, there were about 108 200 non-elderly one-person applications under the Quota and Points System. Despite the best effort of the Government and HA in boosting public housing supply in recent years, the increase in PRH supply has yet to completely absorb the accumulated demand for PRH within a short period of time. If PRH units remain in short supply, there is still pressure for the AWT to further increase. We believe that identifying land actively to increase PRH supply is the fundamental way to shorten the AWT.
- (b) The regularisation of **GSH** in 2018 helps better-off Green Formers move up the housing ladder, and at the same time releases more PRH units for allocation to those with more pressing housing needs. In 2018, HA decided that GSH flats would be sold at a discount of 10% more than that applicable for the preceding HOS sale exercise. 2 545 flats were put up for pre-sale under GSH 2018 and were sold out in June 2019, with selling prices set at 42% of the assessed market value. As for GSH 2019, the sale of two projects at Chai Wan and Tsing Yi, providing a total of 3 696 flats, will be launched by the end of 2019. The selling prices would be 49% of the assessed market value.
- (c) In June 2018, the Chief Executive announced the revised pricing policy of **HOS** by delinking the selling prices of HOS flats from the market prices of private housing, and adopting the affordability of applicants as the basis while ensuring that at least 75% (up from 50%) of the HOS flats put up for sale under the same sale exercise are affordable. All the 4 431 flats under HOS 2018, priced at 52% of the assessed market value, were sold in May 2019. In May 2019, 4 871 flats under HOS 2019 were put up for sale, with selling prices set at 59% of the assessed market value.

³ Waiting time refers to the time taken between registration for PRH and the first flat offer, excluding any frozen period during the application period (such as when the applicant has not yet fulfilled the residence requirement, when the applicant has requested to put his or her application on hold pending arrival of family members for family reunion, or when the applicant is imprisoned). The AWT for general applicants (i.e. family and elderly applicants) refers to the average of the waiting time of those general applicants who were housed to PRH in the past 12 months.

- (d) To address the home ownership aspirations of low and middle-income families, HA launched two rounds of Interim Scheme to extend the HOS Secondary Market to White Form buyers in 2013 and 2015 respectively. In 2017, HA regularised **WSM** in response to the persistently high demand for SSFs from low and middle-income White Form family applicants. HA also increased the annual quota of WSM from 2 500 in 2018 to 3 000 in 2019.
- (e) **SH** aims to help higher-income families which are not eligible for HOS and yet cannot afford private housing to meet their home ownership aspiration in the face of persistently high property prices. In order to test out the SH concept earlier, the Government invited URA in June last year to assign its redevelopment project at Ma Tau Wai Road as the first SH pilot project. URA put up 450 SH units for pre-sale at 62% of their assessed market values, with an over-subscription rate of 45 times. All units were sold in June this year.

Increasing the public housing supply

19. On the basis of enriching and consummating the housing ladder, the Government has been striving to increase the public housing supply in order to meet the housing supply target. Based on the figures as at September 2019, the estimated total public housing production of HA and Hong Kong Housing Society (HKHS) in the five-year period from 2019/20 to 2023/24 is about 100 700 units, comprising about 74 700 PRH /GSH units and about 26 000 other SSFs (see the table below).

Year	Total Production
2015/16 to 2019/20	89 200
2016/17 to 2020/21	87 800
2017/18 to 2021/22	97 700
2018/19 to 2022/23	101 000
2019/20 to 2023/24	100 700

20. To further expedite the supply of public housing, the Government implemented the following policies and measures in 2018 -

- (a) allowed a further increase of domestic plot ratio for public housing sites in selected Density Zones of the Main Urban Areas and New Towns by 10% (i.e. up to maximum 30% increase in total) where technically feasible, with a view to optimising land resources and maximising public housing supply in the short and medium terms;
- (b) re-allocated nine private housing sites for public housing development. These sites are expected to provide some 11 000 units. In fact, the Government has already re-allocated 21 sites originally intended for private housing development for public housing use since 2013/14; and
- (c) revised the land premium arrangement for subsidised housing projects of HKHS, which will enable HKHS to continue to provide rental units and SSFs and implement the re-development programme of aged rental estates on a financially sustainable basis.

Effective use of public housing resources

21. While increasing housing supply, it is also important to promote the rational and effective use of public housing resources.

Flat for Flat Pilot Scheme for Elderly Owners

22. To further promote the circulation of SSFs, the Government has facilitated HKHS to launch the “Flat for Flat Pilot Scheme for Elderly Owners” on a trial basis. Under the Pilot Scheme, eligible elderly owners of HKHS’ SSFs with premium not yet paid can sell their original flat and then buy a smaller one in HA’s or HKHS’ Secondary Market. The Pilot Scheme aims to provide eligible elderly owners with a choice to move into SSFs which suit their needs better (e.g. a flat closer to where their children live for support and care), while vacating larger SSFs for eligible families in need of more living space. HKHS has started receiving applications since 14 October this year.

Letting Scheme for Subsidised Sale Developments with Premium Unpaid (Letting Scheme)

23. In September 2018, HKHS launched the Letting Scheme on a pilot basis to help the grassroots applying for PRH improve their living conditions before PRH allocation. Under the pilot Letting Scheme, owners who have owned their flats for 10 years or more are allowed to let part of their flats with premium unpaid to PRH applicants. Upon review, HKHS has formulated enhancement measures for the Letting Scheme, which include allowing owners to let the whole flats or individual bedrooms to PRH tenants, or let the flats to specified non-governmental organisations for sub-letting the flats to eligible tenants. In July this year, HA endorsed joining the enhanced Letting Scheme on a trial basis, so as to allow eligible owners of HA's SSFs to join the scheme as well.

24. The enhanced Letting Scheme will open for application for owners from 18 November this year, while applications for tenants will open in December. HA and HKHS will take into account the feedback from various stakeholders and conduct a mid-term review of the scheme in light of the operational experience after one year of operation.

Trial scheme for full rent exemption for elderly under-occupation households

25. For better utilisation of the precious PRH resources, HA endorsed on 21 June this year the implementation of a trial scheme whereby under-occupation households whose family members are all aged 70 or above are allowed to enjoy life-long full rent exemption upon transfer to suitably-sized units. The scheme will be implemented in the fourth quarter of this year for a period of one year. HA will allocate 300 units for the scheme on a first-come-first-served basis during the implementation period. This initiative aims at providing a rent-free housing option for all-elderly under-occupation households to transfer to other smaller, new or refurbished units, and enabling them to save living expenses under the rent-free transfer. At the same time, it will help increase the supply of larger units for allocation to households with more family members awaiting PRH allocation.

Maintaining the healthy development of private residential property market

26. The Government has adopted a two-pronged approach to maintain the healthy 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. At the same time, the Government has introduced demand-side management measures in a timely manner to minimise various adverse consequences that may arise from an overheated market.

Increase in supply

27. Based on the Government’s assessment of private residential developments on known disposed sites as at end-2018, the annual average completion of private residential units from 2019 to 2023 is about 18 800, representing an increase of about 20% over the annual average completion (16 100 units) of the past five years from 2014 to 2018. The Government will continue to provide sufficient and stable land supply in the long term to respond to the home ownership aspirations of different social strata.

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

28. The Government announced on 29 June 2018 its proposal to introduce Special Rates on vacant first-hand residential units by amending the Rating Ordinance, so as to encourage more timely supply of these units. The Government introduced the Rating (Amendment) Bill 2019 into the Legislative Council (LegCo) for scrutiny on 23 October this year.

Amending the Lands Department (LandsD) Consent Scheme

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 there is less than 20% residential units remain unsold, the developer has to offer for sale all the remaining units in one go. The new requirement came 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. 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. Given that local property prices continue to stay out of line with economic fundamentals, 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 development of the property market.

31. According to statistics of the Inland Revenue Department, purchases by non-local individuals and non-local companies stayed low at 0.9% of total residential property transactions in the first nine months of 2019, much lower than 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 20% in January to November 2010 (i.e. before the introduction of SSD). Furthermore, only about 7% of transactions were subject to NRSD in the first nine months of 2019, much lower than about 26% of residential transactions were subject to DSD in January to November 2016 (i.e. before the introduction of NRSD). During the same period, among residential property transactions where buyers are Hong Kong permanent residents, about 96% 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. The statistics above demonstrate that the demand-side management measures remain prominently effective in reducing external and investment demand. The Government has no intention to relax or withdraw any demand-side management measure at this stage, and will continue to remain vigilant and closely monitor the property market developments and the evolving external environment.

Rental Market

32. During the recent discussions on tenancy control in the society, some consider that as the Government will study whether to implement a scheme to provide cash allowance to low-income households on a regular basis, the Government should also in parallel explore the feasibility of introducing tenancy control, lest the allowance may push up rents of private flats and leave the tenants with no effective assistance. The Government considers that whether implementing the cash allowance scheme would push up rents, and hence warrant considering the introduction of tenancy control, depends on the eligibility criteria for receiving the cash allowance (e.g. whether the allowance is linked to the actual rental expenses), mode and arrangements in disbursing the allowance, etc. No simple conclusion can be drawn for the time being. We can deliberate on the matter after the completion of the study on the regularisation of the cash allowance scheme.

33. The continued increase in land and housing supply (especially for public housing) remains the fundamental solution to the problems of surging rents owing to insufficient housing supply. The Government will continue to strive to increase housing supply on the basis of LTHS with a view to effectively addressing the long-term housing needs of the public.

Advice Sought

34. Members are invited to note and comment on the contents of this paper.

Transport and Housing Bureau
November 2019