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Panel on Housing

Meeting on 2 December 2019

**Updated background brief prepared by the Legislative Council Secretariat on
rent adjustment mechanism for rental units of
the Hong Kong Housing Society**

Purpose

This paper provides background information on the rent adjustment mechanism for rental units of the Hong Kong Housing Society ("HKHS") and related issues, and provides a summary of the major views and concerns expressed by Members on the subject.

Background

2. HKHS was established in 1948 and incorporated as a body corporate in 1951 under the Hong Kong Housing Society Incorporation Ordinance. It is an independent and not-for-profit organization aiming to serve the needs of the Hong Kong community in housing and related services. HKHS finances its housing projects and services with its own resources.¹

¹ Since its inception, HKHS has built housing units under different schemes, including Rental Estate, Rural Public Housing, Flat-for-Sale, Sandwich Class Housing, Subsidised Sale Flats projects, Urban Improvement, Full Market Value Developments, Urban Renewal Projects and Senior Citizen Residences Scheme, etc.

Rental estates

3. There are about 32 000 units in the rental estates under HKHS as at end-December 2018.² The rental units fall into two groups, A and B. Group A caters for the lower-income families while Group B targets families of relatively higher income. Apart from the regular rental units, HKHS also provides Elderly Persons Flats in some of its estates for senior citizens at concessionary rents.

4. According to the Administration, HKHS has taken forward redevelopment programmes for its rental estates in an orderly and gradual manner having regard to the building conditions and availability of appropriate rehousing resources in the vicinity of the estates. As at March 2019, ongoing or planned redevelopment projects included Ming Wah Dai Ha, Yue Kwong Chuen, Kwun Tong Garden Estate Site II and Chun Seen Mei Chuen.³

Rent adjustment mechanism

5. Domestic rents of HKHS' rental units are reviewed every two years. The rates of rent increase were 3% in 2010, 6% in 2012, 8% in 2014, 2016 and 2018.⁴ The main consideration for rent adjustment is the operating costs of the estates and the following specific factors are relevant: rental income must be sufficient to cover the recurrent management expenses, tenancy administration cost, Rates (if included in rent) and Government rent; and provision to be set aside for major improvement works, repair and maintenance.

Providing assistance to needy tenants

6. HKHS introduced the Rent Assistance Scheme in September 2018, which allows tenants with short-term financial difficulty to apply for 50% rent reduction. HKHS will review the eligibility of relevant tenants biennially to determine if the rent assistance should continue to be granted.⁵

² According to [HKHS's website](#), the estimated population of its rental estates as at October 2019 was about 78 150.

³ The Administration's [press release](#) on "LCQ7: Supply of various types of housing and their vacancy rates" issued on 20 March 2019.

⁴ HKHS's [press release](#) dated 10 January 2018.

⁵ According to the [Administration's](#) press release, as at September 2019, HKHS has granted rent assistance to 534 tenants.

7. Tenants with long-term financial difficulty can apply for transfer to other estates under HKHS with lower rent.⁶

Well-off Tenants Policy

8. HKHS has implemented the Well-off Tenants Policy since September 2018. The policy is applicable to the new tenants of its rental estates.⁷

Major views and concerns

9. Members have expressed views on issues relating to HKHS's rent adjustment mechanism at meetings of the Legislative Council and the Panel on Housing ("the Panel"). The major views and concerns expressed by Members are summarized in the ensuing paragraphs.

Rent adjustment

10. Members opined that HKHS should enhance the transparency of the rent adjustment mechanism for its estates, and should make clear to its tenants the factors for determining the rate of rent adjustment. Noting that the provision for major improvement works, repair and maintenance was a factor for rent adjustment, Members were concerned that the rents of HKHS's estates would rise beyond tenants' ability to afford if the costs of such works continued to increase along with the ageing of the rental estates.

⁶ The Administration's [press release](#) on "LCQ12: Rents of newly built public rental housing flats" issued on 23 October 2019.

⁷ Under the policy, the households will be required to vacate their rental flats, if any of the family members has domestic property ownership in Hong Kong, or the family income exceeds 5 times the waiting list income limit, or the total family net asset exceeds 100 times the waiting list income limit. For those who do not have domestic property ownership in Hong Kong but with the household income exceeding 2 times and not more than 3 times of the waiting list income limit, they will be required to pay 1.5 times rent. If the household income exceeds 3 times and not more than 5 times of the waiting list income limit, the tenants will be required to pay double rent. Some tenants will not be affected by the policy, including the households with all family members aged 60 or above, or all family members receiving Comprehensive Social Security Assistance or Social Welfare Department's Disability Allowance (Source: HKHS's [press release](#) dated 10 January 2018).

11. HKHS explained that rent adjustment was mainly based on the operating costs of the rental estates which included various specific factors, and the provision for major improvement works, repair and maintenance was one of them. The rental income must also be sufficient to cover the recurrent management expenses, tenancy administration costs, Rates (if inclusive in rent) and Government Rents. Apart from the operating costs, HKHS would take into account tenants' financial ability and other economic statistics such as the inflation rate, salary index, etc. in determining rent adjustment. Prior to making rent adjustment decisions, HKHS would consult tenants of its estates through established channels.

12. On the question of whether HKHS would use the surplus generated from its other investments to offset the need for rent increase, HKHS advised that HKHS financed its projects with its own resources independently, and needed to adopt prudent financial principles to ensure that it could sustain its development to continue serving the people of Hong Kong. Being a self-financed organization, HKHS had undertaken various investments, and the assets acquired were used to finance the housing projects underway and the redevelopment of aged rental estates. The income and expenditure of rental estates were kept in accounts separate from the revenue generated from other projects or investments.

Redevelopment of aged estates and its impacts on rent levels

13. In view that quite a number of HKHS's rental estates were over 40 years old and HKHS might redevelop them in the long run, Members were concerned whether the redevelopment would push up the rent levels of the rental units. Members also enquired about the factors in fixing the rents of HKHS's newly built rental units to be used for rehousing existing tenants affected by its redevelopment projects.

14. HKHS advised that in fixing the rents of its newly built rental units, HKHS would strive for a balance among various factors, including tenants' ability to afford and operation costs of estates, and would maintain communication with related stakeholders. On the question about providing rent waiver or concession to tenants affected by redevelopment projects such as Ming Wah Dai Ha Redevelopment, HKHS advised that tenants affected by Ming Wah Dai Ha Redevelopment Phase 2 would receive 20% rent reduction in the first year after rehousing to newly built units of Ming Wah Dai Ha Redevelopment Phase 1.⁸

⁸ The Administration's [press release](#) on "LCQ12: Rents of newly built public rental housing flats" issued on 23 October 2019.

Latest development

15. Hon LEUNG Yiu-chung and Hon SHIU Ka-chun wrote to the Panel Chairman on 5 November 2019 requesting that the Panel discuss the rent adjustment for rental units of HKHS and its rent assistance measures. The Panel will discuss the subject with HKHS at the meeting on 2 December 2019.

Relevant papers

16. A list of the relevant papers is set out in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
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**Rent adjustment mechanism for rental units of
the Hong Kong Housing Society**

List of relevant papers

Council/ Committee	Date of meeting	Paper
Panel on Housing	5 May 2014	Hong Kong Housing Society's paper on "Domestic Rental Adjustment by Hong Kong Housing Society" (LC Paper No. CB(1)1324/13-14(04)) Minutes of meeting (LC Paper No. CB(1)2018/13-14)
Panel on Housing	4 May 2015	Hong Kong Housing Society's paper on "Rent Adjustment of Rental Estates by Hong Kong Housing Society" (LC Paper No. CB(1)787/14-15(05)) Minutes of meeting (LC Paper No. CB(1)1024/14-15) Administration's supplementary paper (LC Paper No. CB(1)876/14-15(01))
Panel on Housing	4 January 2016	Hong Kong Housing Society's paper on "Rent adjustment of rental estates, senior citizen residences scheme and subsidized sale flats project" (LC Paper No. CB(1)361/15-16(06)) Minutes of meeting (LC Paper No. CB(1)601/15-16)
Council	24 May 2017	Council question on "Subsidized housing provided by the Hong Kong Housing Society"
Panel on Housing	3 July 2017	Hong Kong Housing Society's paper on "Rent adjustment of rental estates and assistance rendered to tenants with financial difficulty" (LC Paper No. CB(1)1215/16-17(01)) Minutes of meeting (LC Paper No. CB(1)71/17-18)

Council/ Committee	Date of meeting	Paper
		Hong Kong Housing Society's supplementary paper (LC Paper No. CB(1)1333/16-17(01)) and response to the motion passed at the meeting (LC Paper No. CB(1)1338/16-17(01))
Panel on Housing	6 November 2017	<p>Hong Kong Housing Society's paper on "Rent adjustment of rental estates and assistance rendered to tenants with financial difficulty" (LC Paper No. CB(1)155/17-18(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)416/17-18)</p> <p>Hong Kong Housing Society's response to the motion passed at the meeting (LC Paper No. CB(1)254/17-18(01))</p>
Council	20 March 2019	Council question on "Supply of various types of housing and their vacancy rates"
Council	23 October 2019	Council question on "Rents of newly built public rental housing flats"