

**For discussion on  
30 March 2020**

## **Legislative Council Panel on Housing**

### **Accelerating the Sale of Unsold Tenants Purchase Scheme Flats**

#### **PURPOSE**

The Hong Kong Housing Authority (HA) plans to put up rental flats recovered from Tenant Purchase Scheme (TPS) estates for sale in the future. This paper aims to brief Members on our preliminary analysis regarding the sales arrangements of recovered TPS flats in the future and other feasible measures for accelerating the sale of unsold TPS flats, and consult Members' views on these issues. The paper also briefs Members on other TPS-related matters.

#### **BACKGROUND**

2. HA introduced TPS in 1998 to enable public rental housing (PRH) tenants to purchase the flats in which they reside at a discounted price, so as to address their home ownership aspirations. In support of the Government's repositioned housing policies in 2002, no more estates were offered for sale after the launch of TPS Phase 6B in August 2005. Nevertheless, currently, sitting tenants of the 39 TPS estates may still anytime opt for purchasing the rental flats in which they reside.

3. The Adjusted Replacement Cost approach is adopted for pricing the TPS flats. Under this approach, the list prices of TPS flats are set based on the current replacement cost<sup>1</sup>, with adjustments to reflect age and location. The list prices are reviewed and adjusted every two years. At present, the average list prices of unsold flats range from around \$11,000/m<sup>2</sup> to \$22,000/m<sup>2</sup>, representing around 15% to 19% of assessed market value<sup>2</sup> on average. Furthermore, new tenants of unsold TPS flats enjoy a special credit during the first two years of their tenancies. Currently, the full credit enjoyed by the relevant tenants during the first

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<sup>1</sup> The major cost components include building costs, land cost payment to the Government, and costs of major electrical and mechanical improvement works.

<sup>2</sup> We assess the market value of the flats with reference to the market transactions of comparable properties.

year is a discount of 35% of the list price; while the credit during the second year is half of the full credit, which is a discount of 17.5% of the list price.

4. Within the first five years of first assignment from HA, TPS flats owners may sell their flats back to HA<sup>3</sup>. From the third year onward, owners may sell their flats in open market after paying the premium to HA, or sell the flats in the Secondary Market to eligible Green Formers or White Formers at freely negotiated price with premium unpaid.

5. As at end-December 2019, around 41 000 flats (i.e. around 22%) of the around 184 000 TPS flats put up for sale remained unsold. The sales rate of each TPS estate varies, ranging from around 45% to 93%. Among the unsold flats, around 40% are flats with saleable area ranging from 30 to 40 m<sup>2</sup>; the second most are flats of saleable area from 20 to 30 m<sup>2</sup> taking up around 30%; and around 15% are smaller than 20 m<sup>2</sup>. The flat age of unsold flats ranges from 25 to 37 years, of which those of 28 to 30 years and 31 to 33 years each consist around 40%. The profile of unsold TPS flats is at **Annex**. HA sold around 3 100 TPS flats to sitting tenants each year on average, and recovered around 1 200 rental flats from TPS estates through normal course annually.

6. HA's Subsidised Housing Committee (SHC) held a brainstorming session in July 2019, discussing the way forward of TPS. Having considered the persistent and ardent demand for subsidised sale flats (SSFs) in society<sup>4</sup> and the maintenance and estate management problems in TPS estates arising from mixed ownership<sup>5</sup>, Members generally agreed that HA should explore how to expedite the sale of unsold TPS flats. Subsequently, 2019 Policy Address also proposed that

<sup>3</sup> During the first two years, at the original list price, with repayment of the special credit amount to HA. From the third to fifth year, at the assessed full market value less the discount rate at the time of purchase, with repayment of the special credit amount to HA.

<sup>4</sup> The number of units for sale/quota and the number of applications received and over subscription rates are as follows –

| Year | HOS<br>No. of flats for sale<br>[No. of applications][Over<br>Subscription rate] | GSH<br>No. of flats for sale<br>[No. of applications]<br>[Over Subscription Rate] | WSM<br>Quota<br>[No. of applications][Over<br>Subscription Rate] |
|------|--|---|--|
| 2018 | 4 431 [270 000][60 times]  | 2 545 [40 000][15 times]  | 2 500 [61 000][23 times]   |
| 2019 | 4 871 [310 000][6 2times]  | 3 696 [48 000][12 times]  | 3 000 [134 000][44 times]  |

<sup>5</sup> At present, HA can only regulate misdeeds committed in the rental units of TPS estates, while misdeeds committed in common areas (e.g. littering, burning wax, etc.) cannot be regulated by the Marking Scheme for Estate Management Enforcement as these areas fall under the management of Owners' Corporations (OCs).

HA make active preparations with a view to accelerating the sale of these flats. Such work was made one of the new key activities for this year when HA endorsed its 2020/21 Corporate Plan earlier in January.

7. Having regard to the aforementioned discussion, on 10 March this year, HA's SHC endorsed freezing the letting of rental flats recovered from TPS estates starting from 11 March this year, with a view to putting up these flats for sale in the future. At the meeting, SHC Members also expressed their preliminary views on the sales arrangements of recovered TPS flats and other feasible measures for accelerating the sale of unsold TPS flats. We have also informed SHC that before formulating concrete recommendations for HA's consideration, we would invite the views of Legislative Council (LegCo) Panel on Housing regarding how to accelerate the sale of unsold TPS flats.

## **SALES ARRANGEMENTS FOR RECOVERED TPS FLATS**

8. In order to put up flats recovered from TPS estates for sale, we need to consider and decide on a number of key issues relevant to sales arrangements. We aim to consult the views of the Members of LegCo Panel on Housing on these issues via this paper; and we will put up recommendations to HA for consideration as soon as possible after having a closer look into these issues. These key issues are briefly set out below.

### **New category(ies) of target buyer**

9. At the HA's SHC meeting on 10 March this year, **SHC Members generally agreed that the new category(ies) of target buyer of recovered TPS flats should include Green Formers** (i.e. sitting tenants of other PRH units or PRH applicants who have passed detailed eligibility vetting). As sitting tenants of TPS flats are all Green Formers, this suggestion is in line with the target buyers of the existing TPS policies to a certain extent. Meanwhile, other PRH tenants have to surrender the PRH flats in which they reside after purchasing recovered TPS flats; while after other Green Formers (e.g. PRH applicants who have passed detailed eligibility vetting) purchasing these flats, as their home ownership needs have been addressed, HA can allocate the PRH units originally allocated to them to other PRH applicants awaiting flat allocation. Therefore, PRH supply will not diminish under this "one-for-one" arrangement.

10. Furthermore, SHC agreed that we also need to consider how to handle recovered TPS flats that remain unsold after being put up for sale to the new category(ies) of buyer. While we can put up these remaining flats for sale to the original target buyers in the next sales exercise, one of the other options we may consider is extending the target buyers for these remaining flats to other category(ies), such as White Formers or PRH applicants who have yet to secure Green Form status, so as to expedite the sale of these flats. If necessary, these buyers may be given lower priorities.

### **Pricing and alienation restrictions**

11. While we open up the sale of recovered TPS flats to new category(ies) of buyer (e.g. Green Formers) in the future, TPS sitting tenants will still be able to purchase the TPS flats in which they reside anytime according to the existing TPS pricing mechanism (see paragraph 3 above) and alienation restrictions (see paragraph 4 above). Since the TPS flats to be sold to the new category(ies) of buyer and sitting tenants are essentially the same, we consider that **the same pricing mechanism and alienation restrictions should be adopted for both groups** on grounds of equity. Further consideration may be given as to whether the special credit, which are only available to sitting TPS tenants in the first two years of their tenancies (see paragraph 4 above) should be offered to the new category(ies) of buyer as well.

### **Sales approach**

12. At present, HOS and GSH flats are each put up for sale once annually. In order to facilitate the new category(ies) of buyer and achieve cost-effectiveness, **a possible option is to pool together the recovered TPS flats for sale in the annual HOS and/or GSH sale exercises.** Since these sale exercises have been rolled out for some time, members of the public are familiar with their operation, meaning if we leverage on these existing arrangements to conduct the sale of recovered TPS flats, it will be more convenient to eligible applicants and conducive to smooth operation. Moreover, putting up recovered TPS flats for sale involves priority-setting for eligible applicants, and we can make use of the existing balloting arrangements to determine the relevant priorities if we put up these flats for sale in the existing HOS and/or GSH sale exercises. Should we allow the sale of these flats in both HOS and GSH sale exercises, they will be put up for sale twice each year, which helps addressing eligible applicants' home ownership aspirations as well as minimises the vacancy period of recovered flats.

13. The SHC meeting on 10 March this year also discussed the feasibility of selling recovered TPS flats all year around. As aforementioned, we have to set priorities for applicants before putting up recovered flats for sale, one of the more reasonable ways to which is to draw up quotas and priorities for different categories of applicant based on balloting and their housing needs, same as the arrangements of HOS and GSH. If we conduct sale all year round, we may have to sell these flats individually on a first-come, first-served basis, which is in a way determining the applicants' priorities according to their respective time cost. Such an arrangement may be perceived as unjust and bring on inconvenience.

### **OTHER FEASIBLE MEASURES TO EXPEDITE THE SALE OF UNSOLD FLATS**

14. Aside from putting up rental flats recovered from TPS estates for sale, in the longer run, we also need to consider drawing up other measures to expedite the sale of other TPS flats, including those currently being leased to sitting tenants.

#### **Providing additional incentives to TPS sitting tenants**

15. As stated in paragraph 3 above, TPS tenants enjoy a special credit during the first two years of their tenancies. SHC members agreed that we may consider providing additional discount on top of the special credit so as to incentivise TPS sitting tenants to purchase the flats in which they reside. Options that we can consider include but are not limited to providing the special credit again to sitting tenants the first two years of whose tenancies have passed and/or increasing the discount rate of the special credit. Should we provide these additional incentives, we also need to consider and decide on the relevant discount period.

#### **Incentivising sitting tenants who do not have intention to purchase their flats to transfer out of TPS estates**

16. Although HA recovered around 1 200 TPS flats on average annually, it will take a rather long time to recover flats through normal course and some sitting tenants, for various reasons, may not intend to or are not financially equipped to buy a home. Therefore, besides incentivising TPS sitting tenants to purchase their flats, SHC Members generally agreed that we should also consider devising a special transfer

programme to transfer out tenants who do not intend or have financial difficulties to purchase their TPS flats to other non-TPS estates, so as to free up their TPS flats for sale.

17. When formulating the transfer programme, we have to consider and decide on the incentives to be provided in order to attract TPS sitting tenants' participation in the scheme. Incentives that we can consider include but are not limited to providing time-limited rent-free period to tenants accepting transfers, allowing them to choose the other PRH estates to which they transfer, including newly constructed PRH estates, as well as providing additional domestic removal allowance. Furthermore, we also need to consider and decide on the timing of implementing the relevant transfer programme.

## **TIMETABLE**

18. Putting up recovered TPS flats for sale will involve additional work similar in nature to that of the sale of HOS/GSH flats. Preparatory work includes preparation of sales and publicity materials, pricing, legal and conveyancing matters, promulgation of guidelines on sales arrangements, enhancement and interfacing of computer systems and other sales related work. Compared to the preparatory work for the sale of HOS/GSH, the work in respect of TPS flats will take a longer time because retrieval of records of property and sales information as well as title deeds for the 39 TPS estates launched for sale between 1998 and 2006 is required. Furthermore, unlike new HOS/GSH projects for which approved building plans are available, only record plans are available for TPS flats, which will directly affect the relevant work. In order to implement our plan to put up recovered TPS flats as soon as possible, we are working towards the target of putting up proposed sales arrangements for HA's consideration in Q2/Q3 of 2020, so as to put up these flats for sale to the new category(ies) of buyer at end-2020/early 2021.

19. In the long run, even if we have implemented the above measures, it still hinges on a number of factors as to when the sale of all TPS flats put up for sale will be completed. These factors include the number of flats recovered in the future, the discount, target buyers' reception towards the recovered flats, the changes of home ownership aspirations in society, future public housing completions, provision of additional incentives and special transfer programme to TPS sitting tenants, etc. Therefore, it is difficult to make an accurate assessment on

when the sale of all TPS flats will be completed at the moment. After the commencement of the sale of recovered TPS flat, we will be able to better understand eligible buyers' reception towards these flats, so as to assess more effectively the time needed for completing the sale of all TPS flats.

## **OTHER MATTERS RELATED TO TPS**

20. As per Members' earlier request, we now brief Members on the following TPS-related issues.

### **TPS maintenance issues**

21. Same as other private properties, TPS estates are governed by the Building Management Ordinance (BMO), the relevant land leases, and Deeds of Mutual Covenant (DMCs). All TPS estates have formed their respective OCs, which appoint property management companies to manage the common areas and facilities in the estates. According to the DMCs, the OCs and their property management companies are responsible for ensuring the common areas and facilities used by the owners/residents in the estates, including gas facilities<sup>6</sup>, are properly maintained and in good condition. HA, as the owner of the unsold flats in TPS estates, is one of the owners in these estates. To fulfill the basic responsibilities as owners, HA has to pay the monthly management fee and contribute funding, if necessary, for managing and maintaining the common areas and facilities in the estates, according to the number of undivided shares owned by HA as stipulated in the DMCs. Same as the other owners in TPS estates, HA has the relevant rights and obligations as an owner to the interior reparation and maintenance of the unsold flats in TPS estates.

22. Besides fulfilling HA's duties as one of the owners of TPS estates, the Housing Department representatives will, in accordance with BMO, the land leases, and the DMCs, give advice on estate management matters and convey the views of unsold flat tenants to the OCs. However, in order not to dominate estate management affairs while promoting owners'

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<sup>6</sup> Same as private residential developments, Estate Managers (i.e. persons specified by the DMCs to manage the relevant buildings or managing the buildings in order to enforce the DMCs) may reach an agreement with Towngas, so as to transfer the ownership of the common gas facilities to Towngas. Once the agreement is reached, Towngas will take up the relevant maintenance responsibility. If the relevant OCs/property management companies have not transferred the ownership of the common gas facilities to Towngas, they have to ensure the relevant common gas facilities are properly maintained and in good condition as required by the DMCs and BMO.

effective participation and ownership in estate management, we have been exercising caution when casting votes in OC meetings, especially in Owners' meetings. In addition, when HA launched TPS back then, in order to alleviate TPS owners' burden of maintaining the common areas and facilities, HA made a one-off contribution of around \$2.6 billion to the maintenance funds of the TPS estates (i.e. \$14,000 per domestic flat) for the major maintenance works of the estates after the sale. In fact, upon selling the TPS flats, HA has provided sales information to the relevant sitting tenants, setting out buyers' major responsibilities as owners (including the management and maintenance responsibility of the common areas and facilities in the estates), so that buyers can make well informed decisions before home ownership.

23. The co-existence of flat owners and HA as the landlord of PRH tenants in TPS estates has given rise to a number of estate maintenance problems. Maintenance works (e.g. ceiling seepage, pipe leakage, etc.) which involve both sold flats and rental units simultaneously in TPS estates may not be as effectively and promptly carried out as in PRH estates, affecting the PRH tenants in TPS estates. Furthermore, since HA usually owns substantially more ownership shares than individual owners amongst the attendees at Owners' meetings and, given that HA is a public body, different owners/tenants have different expectations regarding HA's role in maintenance and management. As such, when handling matters in respect of management of common areas and facilities in TPS estates, HA have been cautious and taking a neutral stance as far as possible, in order not to dominate estate management and maintenance affairs.

24. If all units in TPS estates are sold, TPS owners can then assume full autonomy in managing their own estate through the OCs, similar to the situations in HOS/GSH estates and private residential developments, which helps resolve the estate management and maintenance problems arising from mixed ownership in TPS estates.

### **Re-launching TPS**

25. We are aware that there are PRH tenants who would like HA to re-launch TPS, so that PRH tenants, including the ones in the rental blocks of Buy-or-Rent Option Scheme estates, outside the existing 39 TPS estates can also purchase the flats in which they reside to achieve home ownership. However, as aforementioned, the co-existence of individual flat owners and HA's tenants within the same blocks has given rise to a number of estate management and maintenance problems. If



we extend TPS to other PRH estates, the same problems may emerge. Furthermore, Chief Executive also stated in the 2019 Policy Address that re-launching TPS in other PRH estates at the moment will reduce the number of PRH units available for allocation in the short term, which will inevitably lengthen the waiting time for PRH applicants. Given the current acute shortage of PRH supply and the need to optimise the use of public housing resources, it is difficult to re-launch TPS for the time being. However, when there is more certainty on the overall public housing supply, the Government will invite HA to look into the matter meticulously.

### **Alienation Restrictions of SSFs**

26. In view of the revised SSF pricing mechanism announced by the Chief Executive in June 2018, which makes the prices of the relevant flats more affordable, at its meeting in November 2018, HA endorsed tightening the alienation restrictions for SSFs (not including TPS flats) launched in 2019 and beyond. Under the revised alienation restrictions, within the first two years from the date of the first assignment, the SSF owner may sell the flat in Secondary Market to eligible buyers specified by the HA at a price not more than the original purchase price; since the third year from the date of first assignment onward, the owner may sell the flat in Secondary Market to eligible buyers at a freely negotiated price. For HOS, eligible buyers are Green Form and White Form applicants (i.e. successful White Form applicants under WSM); for GSH, eligible buyers are Green Form applicants. As for open market, owners may only sell the flats in the open market upon payment of premium after ten years from the date of first assignment. When considering the revised SSF alienation restrictions at the time, HA had already balanced society's calls for tightening the alienation restrictions and the need for ensuring SSF circulation.

27. In future, we will continue to closely keep in view the sales situation and Secondary Market data of SSFs, the development of the residential property market in general, and the views of various stakeholders in society, and review policies pertinent to SSF alienation restrictions in due course.

## **WAY FORWARD**

28. As mentioned in paragraph 18, after gathering views of the Members of the LegCo Panel on Housing and HA's SHC, we will study the relevant views in detail and formulate recommendations, so as to put up proposed sales arrangements for HA's consideration in Q2/Q3 2020 and put up these flats for sale to the new category(ies) of buyer at end-2020/early 2021.

## **ADVICE SOUGHT**

29. Members are invited to comment on the above matters.

**Transport and Housing Bureau**  
**March 2020**

## Profile of Tenants Purchase Scheme Unsold Flats

Annex

### (a) Sales positions by Tenants Purchase Scheme (TPS) estate<sup>1</sup>

| Estate                 | Total no. of Flats for<br>sale<br>(a) | No. of<br>unsold flats<br>(b) | % of unsold flats<br>out of total no. of<br>flats for sale<br>(b) / (a) |
|------------------------|---------------------------------------|-------------------------------|---|
| Hin Keng               | 5 876                                 | 429                           | 7.3%  |
| Heng On                | 5 921                                 | 538                           | 9.1%  |
| Tai Ping               | 1 429                                 | 154                           | 10.8%   |
| Hing Tin               | 2 448                                 | 303                           | 12.4%   |
| Cheung On              | 7 338                                 | 930                           | 12.7%   |
| Wah Kwai               | 3 233                                 | 442                           | 13.7%   |
| Tin Ping               | 5 700                                 | 789                           | 13.8%   |
| Chuk Yuen North        | 6 736                                 | 1 014                         | 15.1%   |
| Yiu On                 | 4 798                                 | 740                           | 15.4%   |
| Kin Sang               | 2 652                                 | 411                           | 15.5%   |
| Tsing Yi               | 3 216                                 | 511                           | 15.9%   |
| Pok Hong               | 5 466                                 | 892                           | 16.3%   |
| Wan Tau Tong           | 2 664                                 | 439                           | 16.5%   |
| Fung Wah               | 1 150                                 | 193                           | 16.8%   |
| Kwai Hing              | 1 528                                 | 262                           | 17.1%   |
| Fung Tak               | 5 323                                 | 998                           | 18.7%   |
| Tin King               | 3 201                                 | 603                           | 18.8%   |
| King Lam               | 4 972                                 | 959                           | 19.3%   |
| Choi Ha                | 2 236                                 | 433                           | 19.4%   |
| Po Lam                 | 5 008                                 | 984                           | 19.6%   |
| Tsui Wan               | 2 340                                 | 461                           | 19.7%   |
| Tai Wo                 | 6 883                                 | 1 362                         | 19.8%   |
| Wah Ming               | 5 303                                 | 1 058                         | 20.0%   |
| Lei Cheng Uk           | 4 826                                 | 983                           | 20.4%   |
| Kwong Yuen             | 4 436                                 | 920                           | 20.7%   |
| Tsui Lam               | 4 932                                 | 1 082                         | 21.9%   |
| Lei Tung               | 7 253                                 | 1 648                         | 22.7%   |
| Fu Heng                | 5 760                                 | 1 315                         | 22.8%   |
| Tak Tin                | 5 148                                 | 1 286                         | 25.0%   |
| Tung Tau (2)           | 6 583                                 | 1 697                         | 25.8%   |
| Cheung Wah             | 5 120                                 | 1 321                         | 25.8%   |
| Lower Wong Tai Sin (1) | 4 722                                 | 1 266                         | 26.8%   |
| Nam Cheong             | 1 898                                 | 512                           | 27.0%   |
| Long Ping              | 8 483                                 | 2 454                         | 28.9%   |
| Fu Shin                | 5 508                                 | 1 670                         | 30.3%   |
| Leung King             | 6 844                                 | 2 101                         | 30.7%   |
| Cheung Fat             | 2 520                                 | 875                           | 34.7%   |
| Tsui Ping North        | 6 192                                 | 2 412                         | 39.0%   |
| Shan King              | 8 644                                 | 4 772                         | 55.2%   |
| <b>Total</b>           | <b>184 290</b>                        | <b>41 219</b>                 | <b>22.4%</b>  |

<sup>1</sup> Figures as at 31 December 2019

**(b) Distribution of unsold TPS flats by size<sup>2</sup>**

| <b>Saleable area<br/>(m<sup>2</sup>)</b> | <b>Total no. of<br/>flats for<br/>sale<br/>(a)</b> | <b>No. of unsold<br/>flats<br/>(b)</b> | <b>% of unsold<br/>flats out of<br/>total no. of<br/>flats for sale<br/>(b) / (a)</b> | <b>% of no. of<br/>unsold flats out<br/>of total no. of<br/>unsold flats<br/>(b) / total(b)</b> |
|--|--|--|---|---|
| Less than 20                             | 7 500  | 5 800                                  | 77.3%   | 14.0%   |
| 20 – Less than<br>30                     | 19 400   | 11 500                                 | 59.2%   | 27.9%   |
| 30 – Less than<br>40                     | 78 100   | 16 900                                 | 21.6%   | 40.9%   |
| 40 – Less than<br>50                     | 71 000   | 6 600                                  | 9.3%  | 16.1%   |
| 50 or above                              | 8 400  | 500                                    | 5.8%  | 1.2%  |

**(c) Distribution of the flat age of unsold TPS flats<sup>2</sup>**

| <b>Property Age<br/>(Year)</b> | <b>Total no. of<br/>flats<br/>(a)</b> | <b>No. of unsold<br/>flats<br/>(b)</b> | <b>% of unsold<br/>flats out of total<br/>no. of flats for<br/>sale<br/>(b) / (a)</b> | <b>% of no. of<br/>unsold flats out<br/>of total no. of<br/>unsold flats<br/>(b) / total (b)</b> |
|--------------------------------|---------------------------------------|--|---|--|
| 25 – 27                        | 7 500                                 | 1 900                                  | 25.0%   | 4.5%   |
| 28 – 30                        | 86 100                                | 17 900                                 | 20.8%   | 43.5%  |
| 31 – 33                        | 70 900                                | 15 100                                 | 21.3%   | 36.6%  |
| 34 – 37                        | 19 900                                | 6 300                                  | 31.9%   | 15.4%  |

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<sup>2</sup> Figures as at 31 December 2019