

立法會

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Panel on Housing

Meeting on 6 July 2020

Updated background brief prepared by the Legislative Council Secretariat on rent review for public rental housing

Purpose

This paper provides updated background information on the public rental housing ("PRH") rent adjustment mechanism of the Hong Kong Housing Authority ("HA"), and gives a summary of the views and concerns expressed by members of the Panel on Housing ("the Panel") on the subject.

Background

2. The PRH rent adjustment mechanism as stipulated in the Housing Ordinance (Cap. 283) came into effect on 1 January 2008.¹ Section 16A of the Housing Ordinance provides that HA shall conduct a rent review every two years and vary the PRH rent according to the change in the income index between the first and second periods covered by the review.² Section 16A(4) of the Housing Ordinance provides that if the income index for the second period is higher than that of the first period by more than 0.1%, HA shall increase the PRH rent by the rate of increase of the income index or 10%, whichever is less. If the income index for the second period is lower than that of the first period by more than 0.1%, HA shall reduce the PRH rent by the rate of reduction of the income index.

¹ The Housing (Amendment) Bill 2007 which introduced the rent adjustment mechanism was passed by the Legislative Council in June 2007 and came into operation on 1 January 2008.

² For the 2018 PRH rent review, the first period is the 12 months in 2015, while the second period is the 12 months in 2017.

3. Section 16A(7)(b) of the Housing Ordinance specifies that the Commissioner for Census and Statistics shall, in relation to the compilation of the income index, compute the index. This includes the computation of the change in the income index between the first and second periods. To collect the income data of PRH tenants for computing the income index, a sample of 2 000 PRH households is randomly selected by HA each month for the first and the second periods.³ The methodology for data collection and computation under the rent adjustment mechanism is set out in Annex A to LC Paper No. CB(1)1220/17-18(01), which is hyperlinked in the **Appendix**.

4. HA has conducted five reviews of PRH rent under the rent adjustment mechanism. The table below sets out the rates of rent adjustment in the respective review exercises and rent relief, if any, provided to PRH tenants in the relevant year –

Rent review/ year	Change in income index	Rate of rent adjustment implemented (effective date)	Rent waiver granted by HA, if any	Rent relief provided in the Budget in the same year, if any
First review in 2010	+4.68%	+4.68% (effective 1 September 2010)	One-month rent waiver for September 2010	Two-month rent relief for July and August 2010
Second review in 2012	+16.24%	+10% (effective 1 September 2012)	One-month rent waiver for September 2012	Two-month rent relief for July and August 2012
Third review in 2014	+19.27%	+10% (effective 1 September 2014)	Nil	One-month rent relief for August 2014
Fourth review in 2016	+16.11%	+10% (effective 1 September 2016)	Nil	Nil
Fifth review in 2018	+11.59%	+10% (effective 1 September 2018)	Nil	Nil

³ Each sampled household receives a notification letter together with an income declaration form. The income declaration forms are served under the Housing Ordinance and declaration is mandatory.

Deliberations by the Panel on Housing

5. The Panel has discussed at its meetings the PRH rent adjustment mechanism and the outcomes of the previous five rent reviews.⁴ The major views and concerns expressed by members are summarized in the ensuing paragraphs.

Impact of rent increases on tenants

6. In view that the rates of PRH rent increases in four of the five review exercises since 2010 were 10%, members expressed concern on the burden of rent increases on PRH tenants and questioned whether the HA's rent reviews had taken into account the increase in tenants' living expenses over past years.

7. The Administration advised that the PRH rent adjustment mechanism aimed to ensure that rent could be maintained at a reasonable and affordable level to PRH tenants. Adjustment was made according to income change under the existing mechanism, which ensured that the average rent increase would not exceed the average income increase. Upon the rent adjustment in accordance with the 2018 rent review, the crude ratio of the average PRH rent to the average PRH household income had gradually reduced from 9.97% in 2007 to 9.14%. Tenants would spend a smaller portion of their income on rent, hence the portion available for meeting other living expenses would increase.

Factors for determining the levels of rent increase

8. Some members opined that an increase in the nominal income of PRH households might not bring about an improvement to their living standard, given that the income increase might be offset by inflation. Instead of making reference to nominal income change only, HA should take into account households' expenditure level and inflation in determining the extent of rent adjustment so that PRH rent would be adjusted to levels which tenants could afford.

9. The Administration advised that changes in PRH households' expenditure levels were not directly related to their ability to afford rent. For example, when income increased at a higher rate than expenditure increased, tenants' ability to afford rent would improve; and when income dropped by a

⁴ Meetings on 7 January, 1 March and 20 July 2010, 4 June 2012, 7 July 2014, 29 June 2016 and 10 July 2018.

greater degree than the drop in expenditure, tenants' ability to afford rent would still be worsened. Therefore, expenditure was not a suitable basis for reviewing PRH rent. As regards inflation, the Consumer Price Index ("CPI") could only reflect changes in the price level of consumer goods and services, and was not related to changes in income. Therefore, by nature, CPI could not reflect tenants' ability to afford.

Review of rent adjustment mechanism

10. Some members opined that the methodology under the present rent adjustment mechanism in effect penalized PRH residents with improved household income, and there was a need for HA to work out a rent adjustment mechanism that could truly reflect PRH residents' ability to afford. HA should also consider whether the cap on the rate of PRH rent increase which was currently 10% should be lowered. At its meeting on 10 July 2018, the Panel passed motions requesting HA to review the rent adjustment mechanism.

11. The Administration advised that HA's Subsidised Housing Committee ("SHC") had discussed the PRH rent adjustment mechanism and other alternatives to revise the mechanism (such as adjusting PRH rent with reference to inflation, households' expenditure level, median household income and wage index) at the meeting on 17 July 2018. In summary, SHC noted from actual experience that the current rent adjustment mechanism based on tenants' income had achieved the intended objective of the legislation when it was enacted in 2007, by consistently and objectively ensuring PRH tenants' ability to afford, and was a more effective mechanism when compared with other options. Under the existing mechanism, there was a 10% cap on the rate of rent increase, while there was no floor in case of rent reduction. Should the tenants' income be found to have dropped based on the data collected under the law, HA would have to reduce rent according to the rate of income reduction. In comparison with the various alternatives to revise the mechanism, SHC agreed that the existing mechanism could better protect tenants' ability to afford in both conceptual and practical terms, and should therefore be maintained.

Frequency of rent review

12. In view that HA adjusted rent once every two years under the rent adjustment mechanism, members enquired whether HA would consider extending the rent review cycle from two to three years.

13. The Administration advised that the Housing Ordinance provided that HA should conduct a rent review every two years. This arrangement was the outcome of an extensive public consultation and discussions by the relevant Bills Committee of the Legislative Council. The relevant requirement had taken into account the concern that the cumulative changes in income index over a relatively long period of three years might give rise to a large degree of rent adjustment which tenants might find it difficult to cope with. On the other hand, a shorter rent review cycle of two years allowed HA to react more quickly to changes in socio-economic circumstances. In particular, when rent needed to be reduced in the light of tenants' income decrease, a review cycle of two years, instead of three years, could better cater for tenants' ability to afford.

Rent assistance and relief measures

14. Some members considered it necessary for HA to provide appropriate assistance measures to alleviate the financial pressure of rent increases on PRH tenants. At the meeting on 10 July 2018, the Panel passed motions calling upon HA to offer a one-month rent waiver to PRH tenants.

15. The Administration advised that SHC had a detailed discussion on whether rent waiver should be granted to PRH tenants in 2018-2019. After carefully considering all relevant factors, including the increase in tenants' income, protection offered by the rent adjustment mechanism in maintaining tenants' ability to afford, and other relief measures under the Government's 2018-19 Budget, SHC considered that there was no practical need for HA to grant all tenants an across-the-board rent waiver in the 2018 rent review. Instead, SHC considered that HA should continue to offer targeted assistance to tenants in need through its Rent Assistance Scheme ("RAS").⁵

Rent Assistance Scheme

16. In view of the heavy burden imposed by rent increases in past rent reviews on grassroots families who were not eligible for RAS, some members opined that HA should relax the eligibility requirements for RAS applicants, and reduce the frequency of its review of the eligibility of RAS beneficiaries.

⁵ HA's RAS aims at granting relief in the form of rent reduction to domestic tenants who are facing temporary financial hardship. Eligible non-elderly households will be granted 25% or 50% rent reduction while eligible elderly households will be granted 50% rent reduction for a period of two years.

17. The Administration advised that in the past, after receiving rent assistance for three consecutive years, non-elderly RAS beneficiaries living in newer block types⁶ were required to move to cheaper accommodation in the same district, if suitable flats were available. Starting from September 2016, the requirement of moving to cheaper accommodation had been relaxed from three to four consecutive years. In addition, the frequency of review of RAS eligibility had been reduced from once every year to once every two years. The arrangement would not only relieve households from preparing income documents for eligibility vetting every year, but also reduce the chance of tenants with financial difficulties considering the application procedures too complicated and thus refraining from applying.

Latest development

18. The Administration will brief members on the result of the 2020 rent review for PRH at the Panel meeting on 6 July 2020.

Relevant papers

19. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
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⁶ These refer to Harmony blocks and rental flats converted from the Home Ownership Scheme/Private Sector Participation Scheme/Buy-or-Rent Option and blocks completed in or after 1992.

Rent review for public rental housing

List of relevant papers

Committee	Date of meeting	Paper
Bills Committee	---	Report of the Bills Committee on Housing (Amendment) Bill 2007 to the Council meeting on 13 June 2007 (LC Paper No. CB(1)1871/06-07)
Panel on Housing	7 January 2010	Administration's paper on "New Rent Adjustment Mechanism for Public Rental Housing" (LC Paper No. CB(1)796/09-10(03)) Minutes of meeting (LC Paper No. CB(1)1208/09-10)
Panel on Housing	1 March 2010	Administration's paper on "New Rent Adjustment Mechanism for Public Rental Housing" (LC Paper No. CB(1)1059/09-10(01)) Minutes of meeting (LC Paper No. CB(1)1744/09-10)
Panel on Housing	20 July 2010	Administration's paper on "New Rent Adjustment Mechanism for Public Rental Housing" (LC Paper No. CB(1)2600/09-10(01)) Minutes of special meeting (LC Paper No. CB(1)2873/09-10)
Panel on Housing	4 June 2012	Administration's paper on "Second Rent Review for Public Rental Housing" (LC Paper No. CB(1)2038/11-12(03)) Minutes of meeting (LC Paper No. CB(1)2557/11-12)
Panel on Housing	7 July 2014	Administration's paper on "Third Rent Review for Public Rental Housing" (LC Paper No. CB(1)1742/13-14(01)) Minutes of meeting (LC Paper No. CB(1)43/14-15)

Committee	Date of meeting	Paper
Panel on Housing	29 June 2016	Administration's paper on "2016 rent review of public rental housing" (LC Paper No. CB(1)1059/15-16(05)) Minutes of meeting (LC Paper No. CB(1)1199/15-16) Follow-up paper (LC Paper No. CB(1)1156/15-16(01))
Panel on Housing	10 July 2018	Administration's paper on "2018 rent review of public rental housing" (LC Paper No. CB(1)1220/17-18(01)) Minutes of meeting (LC Paper No. CB(1)578/18-19) Follow-up paper (LC Paper No. CB(1)1314/17-18(01))