

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Housing Authority

Adjustment of Housing Authority's Home Ownership Programmes

PURPOSE

This paper seeks Members' endorsement to the Home Ownership Committee (HOC)'s recommendation to adjust Housing Authority (HA)'s home ownership programmes.

BACKGROUND

2. The twin goals of the HA are to provide public rental housing (PRH) and facilitate home ownership for those who cannot afford private housing. The Government's 1998 Long Term Housing Strategy White Paper has also reaffirmed these two objectives. Since its publication, the HA has been developing a number of policy initiatives in furtherance of these aims and has rolled forward its production programme to meet the Government's production target.

3. Providing PRH to those in the greatest need has always been HA's prime focus. With the increase in PRH supply and the introduction of a series of reforms to rationalize the allocation of housing resources through increased mobility, we have reduced the average waiting time for PRH from 7 years in 1994/95 to 5.2 years by March 2000. There were 107,000 PRH applications on the Waiting List in May 2000 which was the lowest figure in the past two decades. In line with Government's housing objective, we will further reduce the average waiting time for PRH to 5 years by 2001, 4 years by 2003 and 3 years by 2005.

4. On home ownership, the HA has assisted nearly 300 000 families to become home owners under the Home Ownership Scheme (HOS) and the Private Sector Participation Scheme (PSPS) since 1978. In recent years, the HA has introduced a series of new home ownership initiatives to widen the choice for eligible families. These new schemes include the Tenants Purchase Scheme (TPS) for sitting tenants, the Buy-or-Rent Option (BRO) for prospective tenants, the Mortgage Subsidy Scheme (MSS) for tenants to be affected by redevelopments and the HOS Secondary Market for sitting tenants. In addition, the Home Purchase Loan Scheme (HPLS) has been enhanced and widened to tap more private sector resources in meeting the home ownership demand. All these schemes aim to provide affordable home ownership options for different households as well as facilitating the mobility of PRH tenants which will in turn release more PRH units for re-allocation to those in greater need. With these efforts, the home ownership rate in the public sector has increased remarkably from 25% in 1997 to 34% by early 2000.

PRESENT POSITION

5. The Asian financial turmoil has brought unprecedented impact to the region as well as Hong Kong. The economic adjustment, together with the new developments in our home ownership strategy and the performance of the housing market, require the HA to review its home ownership programmes for meeting the prevailing community aspirations. The following new developments suggest that such a review is now needed -

- (a) The economic downturn has undermined the performance of the economy as well as the immediate aspiration for home ownership. Property prices have dropped considerably since their peak in 1997. While the affordability of home ownership has been improved, people have become more cautious in home purchase than before.
- (b) Both public and private sectors are in a production peak now. The private sector completed 35 300 units in 1999 which was the highest level in the 1990s. The HA will complete over 90 000 units in 2000/01. Given the economic downturn and the bulge in supply, the take-up of new units has been less promising than before. Over-subscription rate for HOS dropped from eight times in 1997/98 to three times in 1999/2000.

- (c) With the introduction of various new home ownership initiatives in the public sector, HOS/PSPS is no longer the only home ownership option for PRH tenants. The widened choice has resulted in a considerable drop in HOS applications amongst PRH tenants. In HOS Phase 22A, only 5 000 applications are from Green Form applicants.

6. To ensure that our home ownership strategy meets the community's needs effectively, the HA should monitor the impact of its latest policy developments as well as prevailing market conditions continuously. Where necessary, we should fine-tune our programmes and policies. However, we must always uphold the following principles in the process -

- (a) The HA should continue to focus its assistance to those in genuine need.
- (b) Any policy adjustment must be consistent with HA's long-term vision and Government's established policy objectives.
- (c) The HA should strive for greater flexibility and more options in meeting clients' housing needs.

PROPOSED ADJUSTMENTS

7. Having regard to the latest policy developments, prevailing market conditions and HA's basic principles in the provision of public housing, we propose the following five broad adjustments to our programmes -

- (a) Given the reduced aspiration for HOS, especially amongst PRH tenants, we propose to transfer some 16 000 HOS units to rental use in the 4-year period up to 2003/04. With the increase in PRH supply, we will be able to accelerate the achievement of 3-year PRH average waiting time target from end 2005 to end 2003. About 6 000 HOS units will be transferred to rental in 2000/01. We intend to keep the waiting time at 3 years after 2003.
- (b) While nearly 35,000 HOS/PSPS units will be completed in 2000/01, we have pre-sold 21 000 units already. Excluding the transfer of 6 000 HOS units to rental use and 2 000 unsold units in previous sales, there will still be 6 000 new HOS/PSPS units which are due for

completion in 2000/01. We intend to shorten the pre-sold period of these units and put up the next sale in early 2001. We are now offering 4 000 new units for sale under HOS Phase 22A and the sale exercise will be completed in August this year. For any unsold or resale units, we will continue to sell them to eligible applicants through flexible arrangements.

- (c) From 2004/05 onwards, flexi-use housing design will be the production norm of the HA so that we will have greater flexibility in future flat disposal. More Harmony, non-standard design and joint venture projects will be introduced so that most of the units involved can either be for rental or sale.
- (d) Having regard to the reduction in the sale of 16 000 HOS units up to 2003/04, we will consider increasing the number of housing loans correspondingly, subject to market conditions, demand and our own finances. From 2003/04 to 2006/07, the HA will further replace 21 000 new sale units by housing loans as agreed in January this year.
- (e) For 2000/01, the sale under BRO and MSS will be reduced from 6 000 units to 2 000 units (*Note : Harmony PRH units*). Eligible MSS/BRO applicants will continue to be given mortgage subsidies to buy HOS/PSPS units.

8. A brief summary of HA's latest production programme between 2000/01 and 2003/04 is at **Annex** for Members' reference.

HOME OWNERSHIP COMMITTEE' S VIEWS

9. The proposed adjustments were discussed at the HOC meeting held on 22 June 2000. During the meeting, HOC Members generally supported the proposed adjustments amidst the prevailing economic and market conditions. Members also raised a number of suggestions on the HOS sale arrangement, setting of HPLS quota and rent-setting for purpose-built HOS units. We will address Members' suggestions proactively

- (a) To improve the accessibility of HOS sales, a more flexible approach in HOS sales, such as walk-in sale for resale units should be explored. We will work out options for HOC' s consideration

shortly.

- (b) The HA will flexibly determine the HPLS quota to be rolled out each year having regard to market conditions despite the committed HOS reduction in the next four years. The HOC will continue to set the loan quota annually.
- (c) In rent-setting for the purpose-built HOS units, prospective tenants' affordability will continue to be HA's prime consideration. We have no intention to change this principle. We will put up detailed proposals for Rental Housing Committee's consideration.

FINANCIAL IMPLICATIONS

10. The above adjustments will affect both the cash-flow and the financial position of the HA. Based on our initial assessment, these proposed initiatives will reduce the forecast closing cash balance of the HA from \$57 billion to \$38 billion by 2003/04. We will conduct a more detailed financial assessment on their impact afterwards. However, the overall financial position of the HA should still remain healthy. We will be able to deliver our housing commitments.

PUBLIC REACTION AND PUBLICITY

11. The community in general has responded positively towards the proposed adjustments on HA's home ownership programmes. These responsive adjustments will reduce PRH waiting time and enhance our flexibility in meeting housing demand in the long run.

12. In our publicity, we will highlight the following key messages -

- (a) PRH applicants will benefit from the HA's more focused effort in clearing the Waiting List after the adjustment of the production mix. The achievement of the 3-year PRH waiting time target will be advanced from end 2005 to end 2003.
- (b) The HA will continue to adjust its sale programme pragmatically in response to market conditions and arrive at a more flexible production programme from 2004/05 onwards.
- (c) The HA will widen the use of housing loans which is an effective

means for supplementing HOS and tapping private sector resources;
and

- (d) The HA remains committed to providing at least on average 50 000 housing assistance opportunities annually to eligible families while the means involved will become more flexible.

WAY FORWARD

13. Subject to Members' endorsement, we would work out the detailed implementation proposals regarding the selection of HOS units for transfer, rent fixing and flat allocation of these new units, designs for new production after 2003/04 and revised HOS sale arrangements for relevant committees' consideration in due course.

DISCUSSION

14. At the Husing Authority meeting on 6 July 2000, Members are invited to approve the proposed adjustments to HA's home ownership programmes set out in paragraph 7 above and the way forward in paragraph 13.

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