

## **THE HONG KONG HOUSING AUTHORITY**

### **Memorandum for the Housing Authority**

#### **Alternative Means of Public Housing Assistance**

#### **PURPOSE**

This paper seeks Members' endorsement to adjust the balance between subsidized home ownership (SHO) flat production and loan provision from 2003/04 onwards.

#### **BACKGROUND**

2. In his 1998 Policy Address, the Chief Executive asked the Secretary for Housing (S for H) to review the extent to which the Government would continue to provide SHO flats as opposed to the alternative of offering housing loans. In the 1999 Policy Booklet entitled "Better Housing for All", S for H indicated that the Government had decided to increase the use of loans to satisfy home ownership demand. S for H briefed Housing Authority (HA) Members on the rationale and key considerations for this policy shift and the preliminary proposal on 7 January 2000.

#### **THE PROPOSAL**

3. The Government considers that the partial shift in the means of providing assisted housing by increasing the use of loans will benefit eligible households, the housing market and the community as a whole. The underlying reasons are -

- (a) *greater choice* – Loans can provide greater flexibility to home buyers in terms of a wider choice of designs, location and size of flats in both the primary and secondary markets to suit their needs. Moreover, beneficiaries are subject to less stringent re-sale restrictions;
- (b) *greater cost-effectiveness* – Because of the absence of land premium subsidy, the net public subsidy involved in a housing loan should generally be lower than that for a SHO flat, hence reducing burden on the public purse;
- (c) *greater private sector participation* – It is consistent with the Government's housing strategy of inducing more private sector contribution in housing provision as outlined in the 1998 Long Term Housing Strategy White Paper; and
- (d) *greater responsiveness to market fluctuations* – As market fluctuations can suppress or accelerate housing demand in the short term, loans can react more quickly to these short-term fluctuations as the lead time for flat production is relatively longer.

4. During the briefing session on 7 January 2000, S for H proposed that starting from 2003/04, the annual average public housing production would be reduced from 50,000 to 44,000 flats, or annual average reduction of 6,000 flats, in a 4-year period up to 2006/07. The HA should provide additional loans for meeting the home ownership demand. The Government would include more housing sites in the Land Sales Programme to facilitate additional flat production by the private sector. S for H had also assured HA Members that the Government would-

- (a) pursue the policy shift gradually and has no intention to replace SHO flat production completely by loans;

- (b) remain fully committed to reducing the average waiting time of public rental housing (PRH) to 3 years by 2005 and achieving 70% overall home ownership rate by 2007;
- (c) safeguard the HA's financial position to sustain its public housing programme; and
- (d) continue to provide a steady and sufficient supply of land to the HA to achieve its revised production targets.

## **ASSESSMENT**

5. At S for H's briefing and subsequent discussions in the Strategic Planning Committee (SPC), Members generally supported to use more loans to meet home ownership demand in principle, given their greater flexibility and the wider choice to the beneficiaries. However, a number of concerns were expressed about implementation. In particular, Members felt that-

- (a) as the market response to the proposed policy shift is uncertain, the pace and scale of implementation should be gradual and progressive;
- (b) the HA should have flexibility in setting the quota and level of loans having regard to its financial position and the market conditions;
- (c) the impact on the HA's finances must be assessed thoroughly; and
- (d) the proposed shift must not compromise the HA's ability to achieve its existing housing pledges.

6. Having regard to Members' views and other policy considerations, our assessment on the Housing Bureau (HB)'s proposal is as follows -

- (a) *Policy Intention*

We accept that loans are generally more efficient and flexible in meeting home ownership demand and there is always room for expanding the HPLS provided that the market is stable and the HA can finance. Indeed, the HA has used loans under the Home Purchase Loan Scheme (HPLS) as a supplement to the Home Ownership Scheme (HOS) since 1988. Nearly 34,000 loans and mortgage subsidies have been granted so far. Loans are attractive choices to customers, particularly when property prices are affordable. The overwhelming response to the HPLS in 1998 is a good indicator.

**(b) *Scale of Reduction***

Given the scale and the duration of the Government's involvement in direct housing provision, it would take time for the market to adjust and respond to this policy shift. A gradual and progressive reduction in SHO flat production is hence preferable.

**(c) *Flexible Provision of Loans***

The HA should have the flexibility in determining the HPLS quota year from year. In the past, the HA had flexibly adjusted the annual HPLS quota to suit market circumstances. For instance, the HPLS quota varied from 1,000 in 1993/94 to 10,000 in 1998/99 and then dropped to 4,500 for 1999/2000. Indeed, in the past six years, 95% of the HPLS recipients purchased second-hand properties. In our current phase, about 55% of Green Form HPLS recipients purchased flats in the HOS Secondary Market.

7. In view of the advantages of loan provision and HA Members' views, we believe that the HA could adjust its balance between loan provision and SHO flat production if relevant policy and operational considerations are met. It is in line with the HA's general policy direction to become a housing facilitator rather than a direct housing provider.

8. We have discussed with the HB in great details on how the shift should best be implemented. Both parties have subsequently agreed that a gradual and incremental reduction of SHO flats would give the market a clearer signal of Government's policy intention. At the SPC meeting on 20 January 2000, both the SPC and the HB tentatively agreed that the proposed annual reduction for the 4-year period from 2003/04 to 2006/07 should be 4,000; 5,000; 6,000; 6,000 flats respectively. A 4-year rolling forward programme would be formulated to determine the HA's future production targets. This progressive reduction approach is also practical as most of the projects to be completed in 2003/04 have been firmly committed. The limited scope of change hence requires a moderate start.

9. In addition, both the SPC and the HB had also agreed on a set of broad principles for the HA to introduce this policy shift which are as follows-

- (a) The Government should continue to provide a steady and sufficient land supply, in a timely manner and with a balanced location mix, for the HA to meet its revised production targets;
- (b) While the HA will continue to provide on average of not less than 50,000 assisted housing opportunities annually, including both financial subsidies and housing production, it will have the flexibility to determine the quota and level of loans having regard to prevailing market conditions and its financial position in a particular year;

- (c) PRH production will not be affected and the HA will continue to determine the mix between PRH and SHO flat production for reducing the average PRH waiting time progressively to 3 years by 2005; and
- (d) The Government will ensure that the HA could sustain its public housing programme financially in the long run.

## **FINANCIAL IMPLICATIONS**

10. The HA has prepared its budgets and forecasts for the five year period up to 2003/04. These forecasts are indicative figures as the HA's finances are subject to a wide range of variables and external factors such as property prices, construction costs, etc which could have a rapid and drastic impact on the forecast balances. The forecast cash balance as at 31 March 2004 is about \$60.4 billion.

11. Provided that the property market will continue to be stable and the assumptions and planning parameters in devising the HA's financial forecast for the coming years are accurate, the HA's financial position would remain healthy by 2006/07 despite the drop in the HOS revenue and the corresponding increase in loan payment from 2003/04 onwards. Although the cash outlay of financing 21,000 loans is estimated to be about \$16.8 billion, the actual cost to the HA will be the interest forgone as we will receive repayments from HPLS recipients. The interest forgone for 21,000 interest-free loans is estimated to be about \$4.6 billion.

## **PUBLIC REACTION AND PUBLICITY**

12. The proposal has aroused extensive public discussions recently. Private developers and market commentators welcome the Government's determination to provide greater choice to eligible households. Nevertheless, there are still some public concerns about the potential impact of SHO flat reduction on property prices and whether and how private developers would react to the new initiative.

13. In our publicity, we will clearly explain the rationale and benefits of the policy shift. The reduction will be implemented gradually and progressively and there is no plan to replace SHO flats completely. Both the Government and the HA are fully committed to achieving the housing pledges on reducing PRH waiting time and promoting wider home ownership. The total number of subsidized housing opportunities to be provided by the HA will still be on average at least 50,000 annually. PRH production will not be affected. The HA will work closely with the Government to monitor the market response and determine the future pace and scale of adjustment. With careful and proper implementation, we are confident that the market will react positively.

## **DISCUSSION**

14. At the HA meeting to be held on 27 January, Members are invited to endorse the proposed adjustment on the balance between SHO flat production and loan provision from 2003/04 onwards as outlined in para. 8 and 9 above.

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