

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Housing Authority

Increase of Domestic Rents of 84 Post-1973 Estates

PURPOSE

To seek Members' approval on the proposal to defer the review of the domestic rents of 84 post-1973 estates.

BACKGROUND

2. According to existing policy of the Authority, domestic rents of public housing estates are subject to review every two years. The domestic rents of 84 post-1973 estates are due for review on 1 September 1997 as the last revision took effect on 1 September 1995. Names of the 84 estates are listed in **Annex 1**.

HOUSING (AMENDMENT) ORDINANCE 1997

3. The Housing (Amendment) Ordinance 1997 (the Amendment Ordinance) was published in the Gazette on 30 June 1997. It provides that-

- (i) rent increases for public rental estates managed by the Authority can only take effect at least three years after the preceding rent adjustment; and
- (ii) level of rent increases to be such that the median-rent-to-income ratio (MRIR) in respect of all public rental housing estates does not exceed 10%.

The Amendment Ordinance is to come into operation on a day to be appointed by the Secretary for Housing, which day is yet to be appointed. A copy of the Amendment Ordinance is at **Annex 2**.

IMPLICATIONS ARISING FROM AMENDMENT ORDINANCE

4. The Secretary for Housing has asked for a detailed assessment of the full implications of the Amendment Ordinance not later than 30 September 1997 in order to enable him to decide the way forward. The assessment will cover financial, operational and legal implications, including the feasibility of implementation. A report is being prepared by the Department which will be circulated to Members before its submission to the Secretary for Housing.

CURRENT PRACTICE

5. The current system of biennial rent review is well established and is in line with the common practice in the private sector.

6. Rate of increase is determined on the basis of tenants' affordability. The current ceilings of MRIR of 15% and 18.5% (depending on space standards) is set having regard to past trend of actual housing expenditure in Hong Kong.

CASE FOR DEFERRING RENT REVIEW

7. According to legal advice, the Authority will not be acting unlawfully in reviewing the rent of the 84 post-1973 estates according to the current practice of biennial rent review and the MRIR ceilings so long as the Amendment Ordinance is not in operation.

8. However, the 84 post-1973 estates is the first batch of estates for which rents are due for review after the gazetting of the Amendment Ordinance. Should the Amendment Ordinance come into operation and the review of rents for the other batches of estates was restricted as provided for in the Amendment Ordinance, tenants of the 84 post-1973 estates would feel aggrieved by the decision of the Authority to review their rents. They would consider themselves to have been unequally treated by the Authority. The programme of rent review exercises in two years cycle is at **Annex 3**.

9. It is also considered not equitable to single out the tenants of the 84 post-1973 estates for different treatment. Before the Authority knows if and when the Amendment Ordinance will come into operation, it is more advisable that the Authority should defer the rent review for this batch of estates. In this way, all tenants will be subject to equal and consistent treatment.

10. When the situation has been clarified and if it is decided that the Authority may review rents of all public rental housing estates under current policy of biennial rent review and MRIR ceilings, it is proposed that the Authority should:

- (i) implement the rent review of the 84 post-1973 estates as soon as possible;
- (ii) in the implementation of the rent review as in paragraph (i) above, take into consideration rental shortfall arising from the deferral; and
- (iii) adopt 1 September 1999 as the date of the next rent review following the review as proposed in (i) above

This is to ensure equal and consistent application of the Authority's policy and practice such that the tenants of the 84 post-1973 estates will neither be prejudiced nor given undue advantage. Financially, they should be the same as if their rents were reviewed on 1 September 1997.

RECOMMENDATION

11. It is recommended that the rent review exercise for the 84 post-1973 estates should be deferred for the reasons described in paragraphs 8 and 9.

12. It is also recommended that, when the situation has been clarified and if it is decided that the Authority may review rents of all public rental housing estates under current policy of biennial rent review and MRIR ceilings, the Authority should implement the proposals as described in paragraph 10.

FINANCIAL IMPLICATIONS

13. If rental shortfall due to the deferral of the rent review as proposed is taken into account in the determining of rent of the 84 post-1973 estates as proposed in paragraph 10, the financial implications to the Authority will be insignificant.

DISCUSSION

14. At the next meeting of the Authority to be held on 24 July 1997, Members will be invited to approve the recommendations in paragraphs 11 and 12 above.

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