

# **THE HONG KONG HOUSING AUTHORITY**

## **Memorandum for the Housing Authority**

### **Moving Towards a Flexible Housing Production Mix**

#### **PURPOSE**

This paper seeks Members' approval to introduce a flexible housing production mix from 2004/05 onwards as recommended by the Strategic Planning Committee (SPC) previously.

#### **BACKGROUND**

2. The basic objectives of the Housing Authority (HA) are to provide rental housing to those in need and to facilitate wider home ownership. To achieve these two objectives, the HA has been operating two major programmes : public rental housing (PRH) and home ownership scheme (HOS). The HOS is further supplemented by the Private Sector Participation Scheme (PSPS) and the Home Purchase Loan Scheme (HPLS). In meeting the demand for both rental and home ownership units, the HA has been maintaining a balanced housing programme with a broad split of 50:50 between PRH and HOS/PSPS.

3. This policy balance has been translated directly into HA's housing development programme. For many years, the HA has been providing PRH and HOS with a high degree of standardization and mass production. Since the planning standards of PRH and HOS developments are different, the planned use of buildings, i.e. sale or rental, has an important bearing on the choice of standard blocks. Building standardization is reflected on the choice of standard blocks which include -

- (a) PRH : Harmony blocks are the mainstream which are supplemented by Annex blocks and Small Household blocks in the provision of small flats.
- (b) HOS : New Cruciform blocks (NCB) are now the norm. Concord and Harmony blocks are also used. More non-standard designs have been planned from this year onwards.

Hence, half of HA's new production are planned and constructed under rental and sale standards respectively.

## **NEED FOR CHANGE**

4. While acknowledging that standard building designs have brought many benefits, including economies of scale, consistency of building standards, construction efficiency and programming expediency, the rigid distinction between rental and sale building designs has undermined the policy flexibility of the HA in meeting changes in housing demand as well as the external environment. Two recent developments have reinforced the need for the HA to develop a more flexible housing production mix -

- (a) With the introduction of new subsidized home ownership schemes, e.g. Tenants Purchase Scheme (TPS), Mortgage Subsidy Scheme (MSS) and Buy-or-Rent Option (BRO), all new HA buildings have become saleable. The distinction between rental and sale building designs has been blurred.
- (b) The volatility in the housing market and the continued shift of housing demand patterns require us to maintain a certain degree of "interchangeability" in our development strategy. As the standard development lead time of public housing is now 50 months, it will be difficult to commit on a rigid production mix four years in advance.

Indeed, when the HA endorsed the adjustments of home ownership

programmes in July 2000 to transfer 16,000 HOS flats to rental, Members agreed that flexi-use building designs should become the production norm to facilitate future flat disposal vide Paper No. HA 47/2000.

5. On the other hand, there are concerns that the proliferation of standard building designs has undermined the diversity of our cityscape and has to some extent generated monotonous housing estates. In some cases, standard designs may not optimize the development potential of sites with severe site constraints. In response to these challenges, Members agreed to widen the use of "non-standard" building designs vide Paper No. HA 24/2000 when approving the 50-initiative reform blue-print for enhancing building quality in April 2000. The Building Committee subsequently approved the launch of new procurement strategies for four pilot projects adopting site-specific approach with non-standard designs in August 2000.

6. Given these latest developments, we recommend to introduce a more flexible production mix which will give the HA greater policy flexibility in meeting housing demand. In developing this new approach, we have made reference to four basic policy considerations -

- (a) In terms of objective, the new production mix should give the HA greater policy flexibility in future flat disposal. The production mix should not constrain, but facilitate the HA in arriving at an appropriate rental and sale balance.
- (b) In terms of market positioning, public housing will continue to be provided to those in need. Both pricing and rental policies of public housing are determined by clients' affordability. The production mix should sustain this policy spirit.

- (c) In terms of market outlook, the HA should take a more prudent financial management approach when developing public housing as property prices have become more affordable under the steady and sufficient land supply from Government.
- (d) In terms of production, the HA will continue to provide public housing in large quantities on the basis of the well-proven approach of standard building modules and mechanized construction techniques in meeting Government's forecast demand for public housing.

### **FLEXIBLE PRODUCTION MIX**

7. Having regard to the above considerations and previous discussions by HA and Committee Members on the subject, we would consolidate here how this flexible production mix will take shape. In our views, it should achieve three key objectives -

- (a) To provide the maximum degree of flexibility in future flat disposal by reducing the constraints imposed by purpose-built HOS and PRH designs.
- (b) To adopt building designs that make the best use of the sites and enrich their identities while retaining the merits of standard building modules and mechanized construction.
- (c) To continue to deliver public housing cost-effectively and efficiently for those in need on the basis of affordability.

8. In order to remove the rigid distinction between PRH and HOS building designs, we intend to categorize new housing projects into two broad groups with different levels of development costs. We will elaborate how this proposal will proceed in the following aspects -

- project classification;
- production mix;
- layout planning and building designs;
- development cost yardsticks;
- flat mix;
- project disposal; and
- planning considerations.

### **Project classification**

9. New projects will be classified into two groups, i.e. Group 1 and Group 2, having regard to their locations, commitments for rehousing, financial viability and relevant policy considerations -

- (a) Group 1 projects will be the mainstream, serving three types of housing demand -
  - rehousing demand arising from redevelopment of old PRH estates and government's clearance operations;
  - PRH applicants on the Waiting List or sitting tenants applying for transfers; and
  - home ownership demand.

These projects are planned either for rent or sale.

- (b) Group 2 projects will be confined to those strategic locations which demonstrate promising development potential. They are not required to meet rehousing demand and will be for sale.

### **Production mix**

10. Excluding PSPS projects which are sale projects administered on behalf of the Government, we propose to have a broad split of 80:20 between Group 1 and Group 2 projects between 2004/05 and 2007/08. This mix might vary slightly between years to match with the land supply pattern. We will review the proposed split when rolling forward our production programme annually.

11. We have consciously proposed to put a larger portion of production under Group 1 for three reasons. First, they offer us greater flexibility in meeting changes in housing demand patterns. This enlarged buffer will allow us to keep Group 2 and PSPS projects intact when meeting an increase in rental demand. Second, as all Group 1 projects are saleable and will be more often featured by site-specific designs, we do not need to retain a large purpose-built sale stock. Third, it tightens up cost control as the majority of our production will be built on Harmony comparable standards.

12. In future, the production mix will have no direct bearing on HA's policy decision on its rental and sale balance. As the annual public housing production will remain at about 40,000 flats after 2004/05 with the partial replacement of HOS production by HPLS loans as agreed by Members this January, it is still our intention to maintain a broad split of 50:50 on the rental and sale balance. The exact split can be adjusted in due course according to HA's policy needs and market circumstances. As Group 1 projects are saleable, the HA will have the flexibility to adjust its sale and rental balance subsequently.

13. Since building contracts for projects to be completed before March 2004 have all been let out, the new strategy will apply from 2004/05 onwards. In some cases, the committed site formation and piling works might have constrained the use of block designs already.

### **Layout planning and building designs**

14. In future, we will initiate a more comprehensive site-specific layout approach to determine building designs which may be based upon standard blocks, modified standard blocks or non-standard blocks so as to suit characteristics of individual sites. More estate identity enhancements will be included. Standard blocks will continue to be used given their merits but modified or non-standard blocks will be used where the former cannot optimize the development potential of the sites. For Group 1 and Group 2 projects, we will make reference to current Harmony and NCB designs respectively.

15. Similarly, in terms of standard of fitting-out works, Group 1 and Group 2 projects will be pitched at the prevailing Harmony and NCB levels respectively. These standards have been generally meeting the functional needs and expectations of our clients already. They are also in line with the general demarcation line for existing PRH and HOS projects. For Group 1 projects, the same fitting-out standards will be provided regardless of the blocks are eventually for rent or sale.

### **Development cost yardsticks**

16. In exercising prudent financial control on new public housing projects, the SPC has set development cost yardsticks for different types of building designs. The overall development viability of new housing projects will also be considered by the SPC individually.

17. The prevailing cost yardsticks will apply. For those projects which will involve site-specific or non-standard building designs, we propose to set their development cost yardsticks as follows -

	<b><u>Benchmarks</u></b>	<b><u>Development Cost Yardsticks per m<sup>2</sup> CFA</u></b>
<b>Group 1 projects :</b>	Harmony + 5%	\$7,110 (HI Average)
<b>Group 2 projects :</b>	NCB + 10%	\$8,280

If there is a strong case to exceed the yardsticks for addressing environmental constraints and special design requirements, we will justify each case on their individual merits as we did in the past. These new cost yardsticks are set to strike a balance between adopting site-specific building designs and sustaining financial viability of public housing projects.

18. As we have just started to widen the use of non-standard building designs, we will monitor the market response closely and review the cost yardsticks annually. The next review for development cost yardsticks will be conducted in mid-2001.

### **Flat mix**

19. Since Group 2 projects will be basically for sale, they will cover 2-bedroom and 3-bedroom flats. For Group 1 projects, they will provide a full-range of flats from 1-person flats to 3-bedroom flats in meeting three basic types of demand -

- (a) rehousing demand from public redevelopments and clearance operations;
- (b) demand from PRH applicants and sitting tenants; and
- (c) surplus production on top of (a) and (b) above for sale purpose.



The flat mix of each project will hence be planned on its intended clientele correspondingly.

### **Project disposal**

20. The new arrangements will give us greater flexibility in flat disposal as the policy decision on rental and sale mix will be largely separated from the production mix. The HA can vary the ultimate sale and rental mix pragmatically having regard to prevailing policy needs, market conditions and programming changes of projects. Since sale projects will involve land grants which take about 18 months to complete, we can defer the decision on how many and which Group 1 projects to be offered for sale during the construction period instead of in the planning stage as it is now. It must be emphasized that not all Group 1 projects will end up as rental. They can be sold under the MSS, BRO, HOS where demand justifies.

### **Planning considerations**

21. Under the prevailing planning guidelines, the provision of carparking spaces and some community facilities will vary between rental and sale projects. For Group 1 projects, we will plan for these service provisions according to their intended use initially to avoid major discrepancies in the provision of facilities. In the long run, we will work with relevant departments to arrive at a range of standards for Group 1 projects which will maximize their interchangeability.

22. In summary, the new housing production mix will provide the HA with greater policy flexibility in meeting housing demand and enrich the design variety within public housing. It will basically work on the following model -

	<u>Group 1</u>	<u>Group 2</u>
<b>Production mix</b>	80%	20%
<b>Layout design</b>	Site-specific	Site-specific
<b>Reference block design</b>	Harmony or non-standard blocks	NCB or non-standard blocks
<b>Flat mix</b>	1 person to 3 bedrooms, reflecting the corresponding housing demand	2 to 3 bedrooms
<b>Level of fitting-out</b>	Harmony	NCB
<b>Development cost yardsticks per m<sup>2</sup> CFA</b>	\$7,110 (based on Harmony + 5%)	\$8,280 (based on NCB + 10%)
<b>Possible clientele</b>	prospective tenants and home owners	prospective home owners

## FINANCIAL IMPLICATIONS

23. Site-specific building designs may increase project development costs slightly. However, the impact on the overall programme will be limited since most of the new production will be provided in blocks based upon standard modules. Group 2 projects will only be confined to about 20% of the total production and this portion is indeed smaller than our existing portion of purpose-built HOS projects which involve higher development costs.

24. Site-specific building designs will more readily enhance the development potential of sites and their estate values which could generate positive returns over the standard designs. In line with the current practice, we will submit financial viability assessments for SPC's approval in determining the best design option on a project basis.

## **PUBLIC REACTION AND PUBLICITY**

25. The community in general will welcome the introduction of site-specific building designs which can enrich the design variety of public housing. The construction industry and related professionals also support the initiative as they will have greater participation in the design and construction of public housing.

26. Since there have been some misunderstandings that our proposals will imply that the HA will start building luxury units and only 20% of its production will be for sale in future, we will explain to the community that our proposals aim to generate greater policy flexibility to the HA. This change is separated from HA's policy decision on the subsequent rental and sale balance of its production. Besides, the finishes of these new flats will remain at the prevailing standards. The new production mix will generate a number of benefits -

- (a) The HA will have greater flexibility in meeting changes in housing demand patterns.
- (b) Designs of public housing will become more diversified which will enrich the cityscape. Labeling effects of public housing will be diluted over time with the emergence of more distinct estate identities.
- (c) Development potential of housing sites will be optimized while the perceived value of public housing will rise.

## **WAY FORWARD**

27. The above proposals summarize the various initiatives under discussion during the year aimed at moving towards a more flexible production mix. They were also recommended by the SPC on 14 September 2000. Subject to Members' approval, we will classify new projects under this new approach and firm up relevant implementation details accordingly.

## **DISCUSSION**

28. At the HA meeting to be held on 16 November 2000, Members are invited to approve the introduction of flexible housing production mix from 2004/05 onwards as outlined in paragraphs 9 - 22 above.

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