

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Housing Authority

Tenants Purchase Scheme

PURPOSE

This paper seeks Members' endorsement to a proposed framework and way forward for the Tenants Purchase Scheme (TPS).

BACKGROUND

2. Home ownership is conducive to long-term social stability and will help to foster a strong sense of belonging in the community. The home ownership rate in Hong Kong is currently 52%, of which 13% is attributable to the public sector. The Chief Executive (CE) has recently announced in his Inaugural Speech on 1 July 1997 the aim to achieve a home ownership rate of 70% in 10 years.

3. Against this background, the Home Ownership Scheme (HOS) and the Private Sector Participation Scheme (PSPS) have hitherto been serving as the main vehicles in providing affordable means for families in the low income group to purchase their own flats. The over-subscription recorded in the sale of these flats indicates a strong demand and underscores the large discrepancy of housing prices between the public and private sectors.

4. TPS will make a significant contribution towards achieving the 70% home ownership target by widening the choices available to public rental housing (PRH) tenants and providing an extra rung on the housing ladder. Attempts were made to launch this scheme on two previous occasions without success. In August 1991, only 7.4% of tenants opted for the scheme due to the sale prices, physical conditions of the flats and stringent resale restrictions. When it was revived in 1992, Government considered the offer unattractive and expressed concern that the acceptance threshold set at 30% could lead to management problems. Details of the proposals are summarised in **Annex A**.

5. In the Long Term Housing Strategy (LTHS) Review consultative document published in January 1997, the Housing Authority (HA) was again invited to draw up the implementation details of TPS. This was reinforced by CE in his Policy Address delivered on 8 October 1997 that -

- (a) we will provide the opportunity for at least 250,000 families living in PRH to buy their flats at reasonable and affordable prices over the next 10 years;
- (b) the prices of these flats will take into account the age, location and other relevant factors;
- (c) flexible mortgage arrangements will be negotiated with the financial institutions;
- (d) the conditions of flats will be checked and essential renovation works carried out before sale;
- (e) Owners' Corporations (OCs) will be set up, maintenance funds will be established, partly with contribution from sale proceeds, and reasonable resale conditions will be drawn up; and
- (f) the HA will work out details for Government to take a decision by the end of this year, so that the first batch of about 25,000 flats can be offered for sale early in 1998.

We have developed a package of proposals under this broad framework.

PROPOSAL

6. Past experience indicates that the success or otherwise of TPS will rest largely upon its perceived attractiveness to PRH tenants. A good response to the first phase will help to generate momentum and set the scene for subsequent phases of the Scheme.

Selection of Estates

7. As at end September 1997, the HA 僱 stock of public rental flats stood at 674,000. In choosing flats to offer for sale, age is a critical factor. For old flats, even a very low price will not be attractive enough to offset the potential high maintenance costs. On the other hand, sale of the HA 僱 newest flats (Harmony blocks) at a significant discount would undermine the existing HOS by increasing the demand for rental units from prospective tenants who could afford to purchase HOS flats.

8. We therefore intend to focus, at least initially, on estates built between 1985 and 1992 (principally Trident blocks). The first phase of the Scheme will be selected from these estates and will involve about 25,000 flats in a balanced mix of geographical areas. This aims to provide PRH tenants with a preliminary idea of the price level for different areas.

Acceptance Threshold

9. We do not recommend an arbitrary acceptance threshold as it would impair the prospects of a successful launch of the Scheme. There will be some tenants in selected blocks who choose not to buy their flats. To avoid potential management problems resulting from mixed tenure, carefully drafted Deeds of Mutual Covenant (DMC) will be prepared. We will also help the new owners to form OCs within one year of sale. The owners will be given two years to decide whether to engage private management agents or to retain the HA 僱 service, while the tenants will be encouraged to participate in building management through the Mutual Aid Committees and Estate Management Advisory Committees.

Sale Prices

10. We are committed to launching TPS at price levels which are reasonable and affordable. To this end, the basic sale price will be set by reference to the “adjusted replacement cost” approach ^{Note 1}. In practice, this will result in a level of discount equivalent to 70% of assessed market value. (The discount rate will be used in determining the amount of premium payable by the buyer upon resale.) Flexibility will be available for buyers to make a larger initial payment of up to 50% of assessed market value in return for a lower premium payment liability.

11. We also intend to offer a special credit of 60% which will bring the total monthly housing expenditure of the buyers (inclusive of management fees, government rates and rent) to within two times of current PRH rentals without varying the discount rate. To encourage early purchase, the special credits will only be available in the first two years : 60% in the first year and 30% in the second year. Buyers taking full advantage of this incentive will be paying 12% of the assessed market value to acquire the flats.

12. Under this pricing strategy, the price for a seven year-old 41m² Saleable Floor Area (SFA) Trident 4 flat will be -

District	Market Value (\$ million)	Sale Price after 70% Discount	Sale Price with 60% Special Credit
Urban area	2.1	\$630,000	\$252,000
Shatin	1.8	\$540,000	\$216,000
Kwai Tsing	1.8	\$540,000	\$216,000
Tai Po	1.7	\$510,000	\$204,000
Tuen Mun	1.3	\$390,000	\$156,000

Affordability

13. Tenants who opt for ownership will be required to pay monthly management fees, rates and government rent. For the purpose of illustration,

^{Note 1} Under the “adjusted replacement cost” approach, the price of a flat is based on the present day cost of replacing it, with adjustments of take into account age, location and other relevant factors.

total housing expenditure for a 41m² SFA Trident 4 flat in different areas is provided at **Annex B**.

14. To assist elderly people who want to buy their flats, we will allow them to join TPS on a joint ownership basis with their family members in the existing tenancy. As a deterrent against possible abuse, restrictions on changes to the tenancy record modelled upon HOS will be applied.

Resale Conditions

15. Overly restrictive resale conditions would reduce the attractiveness of TPS and affect its prospect of success. We therefore intend to amend the Schedule to the Housing Ordinance to provide a set of more relaxed conditions for both TPS and HOS -

- (a) at original price to the HA in the first two years or at prevailing TPS price in the third to fifth year from first assignment;
- (b) to eligible persons and other tenants in the secondary market after two years from first assignment; and
- (c) freely in the open market after five years from first assignment subject to payment of a premium proportionate to the original discount or up-front payment.

— The resale conditions currently applying to HOS flats are at **Annex C**.

Casual Vacancies

16. Any initial vacant units in the selected estates will be opened up for sale to other tenants of the same estate in the first instance. Thereafter, any casual vacancies will be offered for sale to other PRH tenants, Waiting List applicants and clearerees.

Eligibility for Public Housing Benefits

17. Successful purchasers, other than those who later dispose of their flats on the open market, will retain the right to apply for HOS flats as if they were White Form (private sector) applicants.

18. Furthermore, some concern has been expressed on the need to provide the buyers with a safety net. We will address this by allowing owners who experience genuine financial hardship to revert to their original status as tenants and to remain in their PRH units. In keeping with the current practice, they will have to undergo an assessment by the Social Welfare Department. They will be eligible to buy their flats again under TPS but will no longer be entitled to the special credit.

Maintenance

19. All estates selected for sale will be surveyed to ensure good physical conditions. Minor maintenance works will be carried out before sale, where necessary. In addition, a structural safety guarantee of seven years will be provided.

20. We also propose to set up a Maintenance Fund for flats sold in each estate under the Scheme. A one-off contribution equivalent to around 8% of total sale proceeds will be made by the HA for flats in each batch, for example, about \$14,000 for each flat in the first batch. This will be topped up by monthly contributions made through the management fees and should be able to meet the cost of major maintenance expenses for up to 10 years.

Building Management

21. Owners will have to pay monthly management fees in accordance with the number of management shares they hold, as stipulated in the DMC. For example, the management fee for 41m² (saleable area) Trident flat is likely to be less than \$500 per month, which is comparable to the management fees charged for HOS flats of similar size.

Method of Financing

22. Similar to HOS, we will provide default guarantee as a means to encourage financial institutions to offer favourable mortgage terms by waiving the downpayment and allowing flexible repayment methods. Discussions are underway with the Hong Kong Monetary Authority and Hong Kong Mortgage Corporation (HKMC) a triangular arrangement for funding mortgage financing under which the HA would purchase securitised mortgages from HKMC.

23. The banks have indicated their willingness to provide mortgage finance to the buyers at preferential interest rates which are comparable to those for HOS. Flexible repayment options (i.e. low-start mortgages) are likely to be available for the first phase. More sophisticated methods of financing such as securitisation will be considered from the second phase onwards or if there is any shortfall in conventional mortgage financing.

FINANCIAL AND STAFFING IMPLICATIONS

24. The Scheme will generate additional revenue for the HA and Government in terms of sale proceeds and Government rent respectively. However, the HA will incur additional costs in the short term as a result of renovation works for the estates to be sold. A team of staff has been set up in Housing Department through internal redeployment, comprising 52 posts at a notional annual recurrent cost of \$32 million. In the longer term, we envisage staff savings as owners take on greater responsibility for estate management and maintenance. We will keep the situation under review. Other departments, including Lands Department, Home Affairs Department and Rating and Valuation Department, may also require additional staff resources.

PUBLIC CONSULTATION

25. There was widespread public consultation on the principles of TPS in the context of LTHS Review. Major political parties, housing concern groups, estate agents, property developers and academics have indicated general support to the scheme although some different views were expressed on the details of implementation.

WAY FORWARD

26. Subject to Members' agreement, the proposed framework outlined in paragraphs 7 to 23 above will be submitted to Government for consideration. Pending Government's approval, a separate meeting will also be arranged for the Home Ownership Committee to examine operational issues relating to first phase of the sales programme.

ADVICE SOUGHT

27. Members will be asked to endorse the proposed framework and the way forward for TPS at the special meeting on 8 December 1997.

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