

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Home Ownership Committee and Management and Operations Committee

Long Term Housing Strategy Review

Sale of Rental Flats to Public Housing Tenants

PURPOSE

This paper seeks Members' views on launching a scheme to sell rental flats to public housing tenants.

BACKGROUND

2. In the Long Term Housing Strategy (LTHS) Review published in January 1997, the Government indicates full support for the proposal to sell rental flats to public housing tenants, and the Housing Authority (HA) is invited to work out the operational details for such a scheme to be launched as soon as possible. The Review proposes that prices should be set at a level which would enable the HA to recover the replacement cost of the concerned flats, with adjustments made to reflect depreciation and the relative value of estates, say, location. It also proposes a modest contribution to a maintenance fund to ease the problem of future maintenance and improvement works.

3. Members should note that the proposal to sell rental flats to public housing tenants is not new. In 1991, the HA endorsed such a proposal and introduced a pilot scheme to sell public rental housing (PRH) flats to sitting tenants. It was then decided that sale would only proceed if

more than 50% of the tenants in a block indicated firm interest to buy. As the overall application rate in the pilot scheme was less than 8%, sale did not proceed.

4. In 1992, the HA re-examined the scheme with a view to improving its attractiveness. A modified scheme which resulted in lower prices of the flats was proposed and the threshold for sale was reduced to 30%. However, the revised proposal did not have the support of the Executive Council because the proposed terms of offer were not considered sufficiently attractive to achieve a high take-up rate. It was also considered that the proposed 30% threshold could lead to problems of management in a mixed tenure situation.

OBJECTIVES

5. It has long been one of Government's housing policies to promote home ownership as it helps to foster social stability and a sense of belonging. Since 1978, the HA has played an important role in promoting home ownership in Hong Kong. Apart from providing 660,000 PRH flats, the HA has also provided over 220,000 Home Ownership Scheme (HOS)/Private Sector Participation Scheme (PSPS) flats to PRH tenants and lower/middle income families to meet the community's aspiration for home ownership. The HA also provides interest-free loans or subsidies to help these families to purchase their own homes in the private sector under the Home Purchase Loan Scheme (HPLS). Through these efforts, the home ownership rate has increased by about one-third over the past ten years to a little over 50% today, of which about 12% has been the publicly assisted.

6. Because of high prices in the private property sector, the aspirations of sitting tenant for home ownership are still largely frustrated. Although the HOS/PSPS provide subsidised sale flats at substantial discounted market prices, they may still not be affordable for many tenants as the monthly housing expenditure for an HOS/PSPS owner may be as much as five to six times higher than that for a tenant living in PRH. In order to satisfy the demand for home ownership among sitting tenants, there is a need to provide additional avenues for assisted home ownership in the public sector.

7. The proposal to sell rental flat to sitting tenants would provide an additional rung on the “ladder” of home ownership in the public sector. It would also make available a wider range of choice for subsidised home ownership apart from the HOS/PSPS and the HPLS, to suit the preferences and affordability of individual tenant families.

THE PROPOSED SCHEME

8. In re-launching the proposed scheme to sell rental flats to public housing tenants, Members may wish to deliberate on its main operational details as set out in the following paragraphs.

Selection of Flats for Sale

9. At present, HA has a total of 660,000 rental units which vary greatly in terms of size, location, age and condition. When the scheme is launched, all tenants will be concerned about whether, when, at what price and on what terms their flats will be available for sale. As such, Members should consider -

- (a) whether all PRH flats should be offered for sale, or only certain types of PRH blocks should be identified for sale and the selection criteria;
- (b) whether the blocks identified for sale would affect the sale of HOS/PSPS flats; and
- (c) whether the proposed scheme should be launched in phases with the first phase as a pilot; and if phased, then how queuing can be equitably rationalised.

Pricing Formula

10. Pricing will probably be the most important factor affecting tenants' willingness to buy. On this, Members may wish to deliberate -

- (a) whether the 'replacement cost' approach as proposed in the LTHS Review should be adopted;
- (b) whether other pricing options are more appropriate;
- (c) the relationship between the level of discount and the land premium to be paid upon resale;
- (d) the relationship between the pricing for this proposed scheme and the normal HOS pricing and its effect on other schemes i.e. the "transfer block" scheme and the proposed mortgage subsidy for Comprehensive Redevelopment Programme (CRP) tenants to buy flats in reception estates; and
- (e) the impact of the price level selected on properties already sold by the HA under other schemes.

Resale Conditions

11. The resale conditions will affect the willingness of tenants to buy their flats and also their perceived value of the flats. Members may wish to consider -

- (a) whether resale conditions are desirable; and
- (b) whether the resale conditions should be modelled on the relaxed HOS resale conditions.

Target Groups

12. There may be a dilemma between making the proposed scheme successful and ensuring that it is also compatible with our existing policies. Well-off tenants would have the greatest incentive and also capability in buying their rental flats. By buying their flats, they can avoid the payment of additional rents under the Housing Subsidy Policy (HSP) and Safeguarding Rational Allocation of Public Housing Resources (SRA) policy. Mobility may be reduced if tenants who buy simply stick to their flats. However, if they are not allowed to do so, the response to the scheme will be compromised. On this, Members may wish to consider -

- (a) whether the scheme should be open to all sitting tenants, including well-off tenants on the assumption that they will probably trade up quickly;
- (b) whether well-off tenants can buy and sell their flats on the same terms as others; and
- (c) whether other tenants or prospective tenants (including Waiting List (WL) applicants and clearerees) should be allowed to purchase any vacant flats in the blocks included in the proposed scheme.

Acceptance Threshold

13. In the past, there have been views that a relatively high acceptance threshold should be adopted in order to avoid the management problems which may arise from a mixed tenure situation. Nevertheless, Members should note that any acceptance threshold of less than 100% would give rise to such a situation. On the other hand, it may not be economical for the HA to launch the scheme in a particular estate and undertake the considerable administrative work arising from the sale as well as pay for the acquisition of the land title of the estate and the Government Rent, if only a few tenants want to buy their flats. Members should therefore consider -

- (a) whether an acceptance threshold is required; and
- (b) if an acceptance threshold is required, at what level should it be pitched.

Management

14. There is a need to devise a sensible management and maintenance plan to address the potential problems that may arise from a mixed tenure situation. We should strike a balance in protecting the interests of owners, tenants and the HA. Members may consider -

- (a) whether the Department or private management agencies or owners' corporations should be tasked to manage the estates;
- (b) whether the Department should continue to manage the estates in the initial years only and the owners should be invited to take over the management responsibility when they have become a majority in the concerned estate; and
- (c) whether and when to introduce private management agencies into the estates concerned.

Maintenance

15. Sitting tenants will be concerned about the quality of the flats they are going to buy and also their responsibility over maintenance in future. The key issues for consideration are -

- (a) the types of blocks which should be offered for sale;
- (b) whether the Department should undertake major upgrading or improvement works before sale;
- (c) the roles of owners and the HA in future maintenance; and
- (d) whether there should be a modest contribution to a maintenance fund as proposed in the LTHS Review.

Redevelopment

16. Some concerns have been expressed about the redevelopment problem which may arise from fragmented ownership in a public housing estate following implementation of the proposed scheme. At present, fragmented ownership in many old private tenement buildings poses a very great obstacle to their redevelopment, with a result that the buildings now become urban slums. To address these concerns, Members may wish to consider whether certain conditions should be stipulated in the Deed of Mutual Covenants (DMC) for the sale blocks to help tackle the future redevelopment problem e.g. redevelopment could proceed upon the agreement of a majority of the owners in the concerned estate.

Eligibility for Public Housing Benefits

17. One of the main concerns of potential purchasers is whether they would be allowed to revert back to tenant status or be eligible for other public housing benefits after reselling the flats back to HA. Members may wish to consider -

- (a) whether owners can revert back to tenants if they are in financial difficulties; and
- (b) whether PRH owners can apply for HOS/PSPS or HPLS in future to further upgrade their living standard.

Mortgage Arrangements

18. To enhance tenants' affordability, Member may consider -

- (a) whether HA should provide full guarantee to financial institutions against purchasers' defaults and the repayment terms involved;
- (b) whether HA should act as the lender and provide loans to purchasers at even more favourable terms than those offered by banks;

- (c) whether HA should provide the buyers with mortgage subsidy in the initial years similar to what we proposed to offer to CRP tenants to purchase flats in the reception estates;
- (d) whether the HA should explore more flexible payment terms, e.g. low-start mortgage; and
- (e) whether tenants can be allowed to treat past rental payment as part of the contribution to the mortgage payment.

Summary

19. In considering the operational details of the proposed scheme, Members should note that a ‘holistic’ approach should be adopted. The proposed operational details should be viewed as a package as they will have an impact on each other.

OTHER CONSIDERATIONS

20. Members should also note that the proposed scheme may have an adverse impact on our existing policies as well as HA’s finances. First, it may reduce the attractiveness of HOS/PSPS flats to sitting tenants, bearing in mind that some 130,000 HOS/PSPS flats will be sold between 1996-97 and 2000-01. Secondly, it may affect the mobility of sitting tenants as the well-off tenants may buy their flats in order to circumvent the payment of additional rents under the HSP and SRA policy. As a result, fewer vacant flats would be recovered for re-allocation.

21. The proposed scheme may also weaken HA’s financial position as HA may have to pay huge sum of money to Government for acquiring the land titles of the estates and pay the associated Government Rent for the unsold rental units and other domestic properties which may not be recoverable. Again, the future sale and pricing of HOS/PSPS flats will have an important bearing on HA’s finance. Besides, CRP tenants may no longer find HOS/PSPS or the proposed mortgage subsidy attractive. Their demand for rental flats will increase.

22. Members should therefore consider the operational details of the proposed scheme very carefully in order to strike a balance between making it attractive to tenants and ensuring that it is consistent and compatible with our existing policies.

PUBLIC REACTION

23. We envisage that the majority of sitting tenants will welcome the proposed scheme as an additional means to assist home ownership among sitting tenants. Nevertheless, the political parties and pressure groups will argue for a greater discount on pricing. They will also ask HA to shoulder more responsibilities regarding future maintenance and management. Nevertheless, some pressure groups may criticize that the “motive” of HA in launching the scheme is to increase revenue and reduce its commitment to providing public rental housing.

DISCUSSION

24. At the next joint meeting of the Home Ownership Committee and Management and Operations Committee to be held on 17 March 1997, Members will be asked to comment on the proposal to launch a scheme to sell rental flats to public housing tenants, and to advise on its operational details.

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