

# HONG KONG HOUSING AUTHORITY

## LONG TERM HOUSING STRATEGY

### - A POLICY STATEMENT -

April 1987

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#### **I Introduction**

1. Government has carried out a review of its housing policies and concluded that while the basic aim of ensuring that adequate housing at an affordable price or rent is available to all households must be maintained, it should be reinforced by extending Government's redevelopment programme to Mark IV - VI and self-contained Former Government Low Cost Housing estates and that the opportunities for assisted home purchase should be increased.

2. This policy statement explains the reasons for these changes and outlines the strategy to be adopted to achieve Government's extended policy aims.

#### **II Housing Policy Objectives**

3. Hong Kong's public housing programme began with the efforts to resettle over 50 000 people who were made homeless by the Shek Kip Mei squatter fire in 1953. It now directly benefits some 2.2 million people who live in Public Rental Housing (PRH) and a further 200 000 who live in Home Ownership Scheme (HOS)/Private Sector Participation Scheme (PSPS) flats. Thus, 45% of the total population live in permanent public housing. Since 1980, production has risen to 40 000 units a year, comprising 30 000 PRH, 5 000 HOS and 5 000 PSPS units. Government's public housing

programme presently takes up one-third of Government's annual expenditure on capital works. Despite this expansion of provision, there are some 180 000 families on the Waiting List for public rental housing and many others in squatter areas and in temporary housing. Moreover, sales of public sector flats are many times over-subscribed.

4. Housing policy should be sensitive to changing needs and aspirations and should not lose sight of the need to give priority to those most in need. In the 1950's, 60's and early 70's, the greatest need was for low rental housing and production was concentrated on public rental housing projects. Improved economic conditions in Hong Kong have brought with them rising expectations and there is a demand for improvements in living conditions, including a growing aspiration to own rather than to rent. In response to this, Government has not only steadily upgraded the standard of public rental housing, but has also provided opportunities for assisted home purchase by introducing the HOS in 1976 and the PSPS in 1978.

5. The current review has been undertaken to identify what changes are needed to the existing strategy in the light of prevailing and anticipated circumstances up to 2001. The Government considers that the strategy should be assessed in relation to its ability to meet the following objectives:

- (a) to ensure that adequate housing at an affordable price or rent is available to all households;
- (b) to promote and satisfy the growing demand for home purchase;
- (c) to ensure that the need for all types of housing is satisfied with minimum delay and in accordance with established priorities;
- (d) to improve residential living conditions by redeveloping older public housing estates whose standards are below present expectations and by encouraging redevelopment of older private housing;
- (e) to secure the most effective use of the resources of both the public and private sector in housing production; and
- (f) to ensure that public resources spent on housing are used most efficiently by ensuring that a household's benefit from housing subsidy is in relation to its need.

### **III The Need for a Change in Direction**

6. Based on the Census and Statistics Department's projection of future population trend and the 1986 review of housing demand and supply, it is forecast that about 960 000 new housing units will be needed to satisfy all demand by 2001.

	<b>Additional flats required</b>
Sources of Demand	
Outstanding demand in 1985	380000
Net household formation	550000
Demand due to private sector demolitions	30000
<b>Total</b>	<b>960000</b>

7. This total demand can be divided into the three demand categories of public rental, assisted home purchase and private sector (unassisted) flat purchase. The distribution among these categories will depend on a number of factors:

- (a) the income distribution of the households constituting the demand;
- (b) the income eligibility limits for public rental, HOS/PSPS and any other form of Government-assisted home purchase scheme; and
- (c) the level and timing of supply of each type of housing and the likely choices that households will make from the opportunities available to them.

8. If the existing strategy and production programme remain unchanged up to 2001, and if other factors remain the same, it is likely that:

(a) by 1995, most outstanding demand for PRH from clearance and redevelopment of non-self-contained PRH flats will be satisfied;

(b) by 1996/97, the outstanding demand for PRH from the Waiting List will have been substantially met. After 1996, the demand for new PRH will mainly come from new household formation. This is unlikely to exceed 10 000 a year and therefore no longer justifies a sustained production of 30 000 units per annum;

(c) there is likely to be an increasing but largely unsatisfied demand for HOS/PSPS. It is estimated that by 2001, the home purchase aspirations of 100 000 households (more than half of whom will be sitting PRH tenants) will remain unsatisfied; and

(d) at the same time, after 1990, the demand for unassisted home purchase will not fully utilise the private sector's resources, like construction capacity, land held by private developers and private sector financing.

In short, there is likely to be an over-provision of PRH, an under-provision of HOS/PSPS and an under-utilization of the private sector's resources.

9. If reliance is placed solely upon HOS/PSPS projects to clear all outstanding demand for assisted home purchase by 2001, this would necessitate further expansion of the Government machinery, with attendant staffing and financial implications. A situation whereby the Government has to increase its production capacity while the private sector still has untapped resources and expertise would clearly be undesirable. It would also have undesirable repercussions on the use of scarce land resources. Isolated sites which are too small for public housing projects but which could be used for private housing would not be developed because of insufficient demand. Nor would the private developers have the incentive to redevelop urban slum areas. Ways should therefore be identified to ensure that full use is made of the resources of the private sector in meeting the outstanding demand for assisted home purchase.

10. An investigation of all Housing Authority (HA) stock shows that the majority of the older public estates (i.e. Mark I - VI and Former Government Low Cost Housing estates) have a living area which, under the current allocation space standards, are only suitable for accommodating one- or two- person households. These estates suffer further from the fact that past allocation policies permitted the inclusion of additional extended family members which, in view of the size of the flats, has resulted in overcrowding of both the flats themselves and the overall estates. Densities are often well above 3 000 persons per hectare (pph), compared with the current average design standard of 2 700 pph for new public housing estates. This overcrowding has placed additional strain on the already minimal support facilities, such as open space and other amenities. As the standards of provision for ancillary facilities in new estates are continuously improved and upgraded, the differences between these older estates and the new ones become more marked and socially unacceptable.

11. In addition, it is forecast that the monthly cost of routine maintenance for the older public estates will increase from HK\$61 per flat in 1985/86 to HK\$163 per flat in 1990/91. This compares to HK\$57 and HK\$69 for the more recently built estates over the same period. Moreover, even after extensive repair and maintenance works, the living conditions in these estates would still be comparatively poor.

12. The majority of older public estates occupy prime urban sites and present good redevelopment potential. In addition, it is undesirable to perpetuate, particularly in the same general district, such large concentrations of low cost housing which lack adequate amenities.

13. The existing strategy envisages redevelopment of only non-self-contained flats in Mark I - III and Former Government Low Cost Housing blocks. However, the foregoing paragraphs show that there is a strong case on both social and financial grounds for redeveloping most of the older public estates to provide a good quality environment with a well-balanced housing mix.

#### **IV The Changes**

14. An amended strategy has been devised to overcome the deficiencies of the existing strategy. It contains the following new features:

- (a) Mark IV - VI estates and self-contained Former Government Low Cost Housing estates will be included in the redevelopment programme;
- (b) the opportunity for home purchase will be increased; and
- (c) a Home Purchase Loan Scheme will be introduced as a new form of assistance to low- and middle- income families wishing to purchase a new private flat.

Each of these features is examined below.

(a) Redevelopment

15. Redevelopment should be extended to most Mark IV - VI and Former Government Low Cost Housing estates based on a programme that takes due consideration of the conditions of the individual blocks and estates concerned. This will increase the overall estimate demand by 125 000 units to a new total of 1 085 000 new flats. It will be possible to use the redeveloped sites for new housing but with improved space and layout requirements, additional sites will also be needed to rehouse those affected.

(b) Promotion of Home Purchase

(i) Among sitting tenants

16. A survey in 1986 showed that although 45% of PRH households have an income exceeding the Waiting List Income Limit, only a small number of such tenants move out to other forms of accommodation. These tenants are continuing to enjoy the subsidy embodied in PRH at the expense of more needy families waiting to be allocated such units. Consequently, additional production is needed for eligible families who have to wait longer to enter PRH. It is therefore desirable to introduce measures that will attract more of the better-off tenants to move to other accommodation which they can now afford.

17. Eviction of sitting tenants as a means of increasing mobility is ruled out because of its social disruption and the shortage of suitable alternative accommodation at present. The successive oversubscription of HOS/PSPS shows that the low mobility of sitting tenants can partly be attributed to the limited supply. There is thus a strong case for expanding the opportunities for assisted home purchase without prejudicing the objective of meeting the public rental demand. Moreover, improved opportunities for sitting tenants would increase mobility and accelerate the pace of rehousing because PRH units would be vacated for prompt reallocation to other families. This will be achieved by reducing the competition for HOS/PSPS flats from other categories and by introducing a Home Purchase Loan Scheme (paras. 21 - 24).

(ii) Among households seeking entry to public housing

18. The present policy is not responsive to demand in that clearerees, disaster victims and Waiting List applicants are offered few alternative opportunities other than to move to public rental housing. Although they can apply for HOS/PSPS by Green-form certificates (see footnote to para. 22) which are valid for one year and extendable for another, the rate of success is very small. In 1985 and 1986, a total of 4 981 Green-form certificates were issued to such applicants, out of which only 644 (13%) were successful.

19. To meet these home purchase aspirations, the preferences of households seeking entry to public housing will be assessed and a sufficient balance of rental flats and HOS flats provided to meet their demand. Initially this will be in rental blocks upgraded to HOS standards and made available for sale. Later, it will be in purpose-built HOS blocks. Housing aspirations will, in this way, be met more effectively without prejudicing the chances of success of other HOS applicants.

(iii) Among households affected by redevelopment

20. Since some 35% of households affected by redevelopment have incomes above the Waiting List limit and 10% have incomes above the HOS income limit, those who wish and can afford to buy their own flats should be encouraged to do so. As most of such households will wish to remain living in the same area, some of the redevelopment sites will be used to provide new HOS projects and redevelopment households be given first priority to purchase such flats.

(c) Introduction of a Home Purchase Loan Scheme

21. In order to widen the range of choices available to families seeking assisted home purchase and to ensure the full utilisation of the private sector's resources, a Home Purchase Loan Scheme (HPLS) will be introduced. The essence of the HPLS is that families who meet the income and other criteria for the purchase of HOS/PSPS flats would be given the alternative of an interest free downpayment loan for the purchase of a new private sector flat to help overcome the problem of initial financing faced by many families wishing to buy their homes. The loans will be interest free and the amount will be 10% of the flat price subject to a maximum of \$50,000. Once their private sector flat is completed, loan recipients would be required to surrender any existing public housing flat that they occupy and would become ineligible for future public housing, except in compassionate circumstances. As a disincentive to the speculative resale of flats, the vendor would be required to repay the Government:

(i) the amount of loan outstanding; or

(ii) amount of loan outstanding x sale price / purchase price whichever is greater

22. The HPLS would initially be restricted to clearerees and Green Form applicants for HOS/PSPS (i.e. sitting PRH tenants) although it might later be extended to other Extended Green and White Form applicants\*. The partial diversion of Green Form applicants to HPLS will improve the other applicants' chance of success in balloting for HOS/PSPS by reducing the number of competitors. It is expected that the joint effect of the HPLS and the housing subsidy policy will induce better-off tenants to purchase instead of continuing to rent their homes, thereby releasing their rental flats for the more needy. It would also facilitate the redevelopment of the older rental estates by providing their tenants with an additional choice of alternative accommodation. Each HPLS loan would represent one public housing flat recovered for reuse or one less flat needs to be built to satisfy long-term demand.

23. To allow private developers sufficient time to increase their production, the HPLS will start with an initial quota of 2 000 loans. The annual HPLS quota will be adjusted thereafter depending on the response of the private sector. Construction will be monitored and integrated with the HOS/PSPS programme.

24. While there is a danger that the HPLS would inflate private sector flat prices, this is considered to be unlikely in practice given the small initial quota and the ability to limit the effect on flat prices by setting an appropriate annual quota and to expand, reduce or terminate the HPLS within a short time in response to property market conditions. The disincentive to speculate provided by the requirement to forego entitlement to public housing and the restraints on resale should also minimise any adverse effect on prices.

## V Estimated Production

25. As the amended strategy extends redevelopment to the older public housing estates, the total production commitment will be increased by about 125 000 flats, the majority of which will have to be provided through the public rental/HOS/PSPS programme. The amended strategy will allow flexibility between the public rental and the HOS/PSPS programmes for all those eligible for housing through these programmes. To meet the estimated demand, the production level for public rental/HOS/PSPS flats throughout the period to 2001 will have to average 40 000 units a year.

26. Production by the private sector will have to average 30 000 flats a year to meet the needs of the strategy. It is anticipated that this can be achieved by the provision of suitable sites, encouragement of redevelopment through the Land Development Corporation and the introduction of the HPLS. Any shortfall would be met by adjusting the public

sector programmes.

## **VI Financial Implications**

27. The financial implications of the amended strategy as compared with the existing one have been assessed on the basis of economic cost, taking into account latent cost elements such as land premium and finance charges foregone. Both strategies are estimated to cost about \$20,000 million over the period up to 2001. While there is little cost differential between the two strategies, the amended strategy would achieve much higher levels of new housing production and allow for redevelopment of older and unsatisfactory public estates.

## **VII The Amended Strategy and the Public**

28. The amended strategy envisages an increase in the Government's commitment to housing to provide the opportunity for all identified demand to be met by 2001, which would not be possible under the existing strategy.

29. Under the amended strategy, the introduction of the HPLS and greater interchangeability

between PRH and HOS/PSPS would mean that:

- (a) by 1995, most outstanding demand for PRH from clearance and redevelopment of non-self-contained PRH flats could be satisfied;
- (b) by 1996/97, the outstanding demand for PRH from Waiting List applicants could be substantially cleared;
- (c) by 2001, additional redevelopment could be accomplished; and
- (d) by 2001, all identified outstanding demand for home purchase from both sitting tenants and eligible families among the general public could be satisfied.

30. Moreover, the amended strategy will not adversely affect the eligibility of those who are entitled to public housing under current policies but will provide a greater choice between rental and home purchase. As more rental units will be vacated by sitting tenants through the joint effect of the HPLS and the recently promulgated policy on housing subsidy, and as some units will not be taken up by prospective tenants who opt for the HPLS, the waiting time for rehousing will not be increased despite the undertaking of additional redevelopment. The chance of success in buying HOS/PSPS flats will be indirectly enhanced by the partial diversion of competitors to the HPLS and to HOS flats especially reserved for redevelopment households and prospective tenants (including Waiting List applicants, development clearances and disaster victims).

## **VIII Summary**

31. The effect of the amended strategy will be that:

- (i) the redevelopment programme will be extended to most Mark IV - VI and Former Government Low Cost Housing estates based on a programme that takes due consideration of the conditions of the individual blocks and estates concerned (para. 15).
- (ii) there will be improved opportunities for PRH tenants to move to assisted home purchase flats (paras. 16 - 17).
- (iii) prospective tenants' preferences will be assessed and a sufficient balance of rental flats and HOS flats provided to meet their demand (paras. 18 - 19).
- (iv) some of the redevelopment sites will be used to provide new HOS projects and redevelopment households will be given first priority to purchase such flats (para. 20).
- (v) a Home Purchase Loan Scheme will be introduced (paras. 21 - 24).

**Notes:**

\*Green Form applicants refer to those applicants who are already sitting tenants of public rental housing. Since Phase 7A, the Green Form eligibility has been extended to Waiting List applicants, junior civil servants qualified under the Civil Servants Quota, development clearerees, disaster victims and residents of temporary housing, primary housing and cottage areas. These are sometimes conveniently referred to as the Extended Green Form applicants. Those HOS/PSPS applicants who fall in neither the green nor the extended green category are referred to as White Form applicants.