



HOMES FOR HONG KONG PEOPLE
INTO THE 21st CENTURY

A White Paper on
Long Term Housing Strategy in Hong Kong

February 1998

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LIST OF ABBREVIATIONS

The following abbreviations are used in this document -

EAA	Estate Agents Authority
HA	Housing Authority
HD	Housing Department
HOS	Home Ownership Scheme
HOUSCOM	Steering Committee on Land Supply for Housing
HPLS	Home Purchase Loan Scheme
HKMC	Hong Kong Mortgage Corporation
HS	Housing Society
HSLs	Home Starter Loan Scheme
Lands D	Lands Department
LDC	Land Development Corporation
PSPS	Private Sector Participation Scheme
SCH	Sandwich Class Housing
SCHLS	Sandwich Class Housing Loan Scheme
SGA	Strategic Growth Area
TDD	Territory Development Department
THA	Temporary Housing Area
URA	Urban Renewal Authority

INTRODUCTION

In his speech to celebrate the establishment of the Hong Kong Special Administrative Region on 1 July 1997, the Chief Executive, the Honourable Tung Chee Hwa, emphasised his new Government's determination to meet the pressing demand for more and better housing. In his first Policy Address on 8 October 1997, the Chief Executive announced major new initiatives to help all households gain access to adequate and affordable housing, and to encourage home ownership in the community. In particular, he pledged that the Government will :

- Build not less than 85 000 flats a year (public and private sectors), starting from 1999-2000, as a long-term target to meet the future needs of the community;
- Achieve a home ownership rate of 70% by 2007; and
- Reduce the average waiting time for public rental housing to three years by 2005.

The Government is determined to achieve these targets and to solve the housing problem of Hong Kong. We will :

- Assess housing demand regularly and accurately;
- Provide a sufficient supply of land, together with supporting infrastructure, shorten development procedures and relieve constraints on the construction industry;
- Draw up a long-term flat production programme and put in place an efficient mechanism for monitoring progress and problem solving;
- Create the conditions to enable the private sector to make the fullest possible contribution towards meeting the demand for housing, while at the same time monitoring the private property market and, if necessary, taking measures to discourage property speculation;

- Implement subsidised housing schemes to enable those in the relevant income groups to buy their own homes;
- Provide public housing at reasonable rents to those who cannot afford any other type of housing; and
- Implement initiatives to address the housing needs of groups in special need.

Each of these elements of our housing strategy form the subject of a separate chapter in this White Paper. They take into consideration the results of a public consultation exercise carried out in the first half of 1997¹ and build on the foundation provided by the housing initiatives announced by the Chief Executive to provide a blue-print for housing policy in the years ahead.

The property sector is an important part of Hong Kong's economy. The Government's land supply and housing production targets are long term initiatives. They are designed to encourage stability in the property market and to minimise sharp fluctuations in prices and excessive speculation. We will regularly review all developments and will also respond flexibly and firmly to any short term problems that might occur.

¹ In January 1997, the Government published for public consultation until end May 1997 a review of our Long Term Housing Strategy, entitled "Homes for Hong Kong People : The Way Forward". The document, which contained 41 specific recommendations, reviewed an earlier White Paper on Long Term Housing Strategy promulgated in 1987.

CHAPTER 1 HOUSING DEMAND

Assessing housing demand

1.1 In drawing up a realistic housing strategy, it is of the first importance that the actual demand for housing - both short term and long term - is calculated accurately. The Government has devised a computer model, more scientific than any previously used in Hong Kong, which will produce the best estimate of demand for housing at any one time.

1.2 Housing demand varies according to economic conditions and population fluctuations, as well as policy decisions which may create housing needs (for example, the pace of squatter clearance). As these factors change, the Government's computer model will be used to recalculate the demand for different categories of housing. As a result, the Government will be able to adjust its housing policies to take into account the most up-to-date assumptions and statistics.

Methodology

1.3 The Government's demand model operates in four stages to project flat production requirements for public and private sector housing -

- (a) first, it calculates the total housing need over the assessment period. This is defined as the number of existing or new households which will require adequate housing. It comprises newly arising needs (e.g. as a result of marriages, divorces and new arrivals from the mainland of China) and generated needs (e.g. as a result of redevelopment of public rental estates and clearance of Temporary Housing Areas (THAs) and squatter areas);

- (b) second, it adjusts the total housing need by a factor (known as the “accommodation generation rate”) to arrive at the total housing demand, or the actual number of existing or new households which may be expected to seek separate accommodation;
- (c) third, it applies a ratio (known as the “splitting ratio”) to divide the total housing demand between the public and private sectors, based on technical working assumptions, in particular about household income and housing preferences; and
- (d) lastly, public and private housing demand is translated into flat production requirements. For the public sector, flat production requirement is assumed to be equal to demand. For the private sector, the calculation takes into account the need to allow for a margin of vacant flats or flats used for such purposes as second homes or accommodation for imported labour.

1.4 There is considerable public concern over the housing needs of new arrivals from the mainland of China. The Government’s demand model has been carefully designed to take account of, in particular, the requirements of this group.

Flat production requirements

1.5 The demand model shows that population growth for the period 1997-98 up to 2006-07 at an average rate of 1.6% a year will continue to drive up flat production requirements. Estimated flat requirements are set out in the table below -

	Public	Private	Total
Total	457 000	343 000	800 000
Annual (average)	45 700	34 300	80 000

Thus over the period up to 2006-07, there is a projected requirement of 80 000 new flats on average each year. The Government will regularly update this projected flat requirement.

Flat production targets

1.6 Taking into account these demand projections, the Government's announced target is to provide not less than 85 000 new flats annually, beginning from 1999-2000². This represents a "safety margin" of 5 000 flats a year, or 6% of the current forecast of housing demand.

1.7 This target may be broken down into the following housing categories -

Total annual production	
Public sector	50 000
Private sector	35 000
	<hr/>
	85 000

1.8 Of the 35,000 flats estimated to be provided by the private sector each year, some will come from redevelopment and lease modification and some from new land sold by the Government. The actual number of flats produced in any particular year will vary, depending on market demand and commercial decisions taken by private developers.

1.9 Changes to the breakdown between public and private sector housing will be made, if necessary, to reflect changes in housing demand.

² The production figures for 1997-98 and 1998-99 will fall short of this figure for historical reasons of land allocation.

CHAPTER 2 HOUSING SUPPLY : SOURCES AND CONSTRAINTS

Basic requirements

2.1 In order to achieve its housing targets, both in the public and private sectors, the Government will -

- (a) secure a steady and sufficient supply of land;
- (b) put in place adequate supporting infrastructure in good time;
- (c) take action, as necessary, to deal with constraints on the supply of labour in the construction industry;
- (d) process housing projects and related land transactions efficiently; and
- (e) put in place an institutional mechanism to monitor housing production on specific sites, and solve quickly and efficiently any problems which arise.

Sources of land supply and Land Disposal Programme

2.2 The Government has allocated or identified sufficient land to meet its production target for both public and private housing up to March 2001.

2.3 For the period from April 2001 to March 2006, land for producing 480 000 new housing flats (96 000 flats on average a year) has been identified. This represents an additional “safety margin” of about 11 000 flats a year (13%) above the annual production target³.

³ See paragraph 1.6 above.

2.4 During this period, the development of reserved sites on current town plans, and the redevelopment of existing sites in the public and private housing sectors will generate some 290 000 flats (58 000 flats on average a year). The remaining 190 000 flats (38 000 flats on average each year) will come from land produced by -

- (a) developing new Strategic Growth Areas including West Kowloon, Kai Tak-Kowloon Bay, Tseung Kwan O and Tung Chung - Tai Ho⁴;
- (b) rezoning existing and planned industrial, agricultural and other land for housing development where infrastructural capacity and environmental considerations permit⁵;
- (c) increasing the development density of Housing Authority (HA) estates by improving supporting infrastructure and exercising flexibility in the application of planning guidelines;
- (d) increasing the density of development in other selected locations; and
- (e) redeveloping suitable old HA flatted factory estates⁶.

⁴ Further development of Strategic Growth Areas will produce a further 270 000 flats between 2006 and 2011.

⁵ A study of land use policy to facilitate rezoning was completed in December 1997. In 1998, 23 hectares of agricultural land and 40 hectares of industrial land will be rezoned for housing and associated development. More land is being identified for rezoning in the next few years.

⁶ The Government has invited the HA to carry out a study of the feasibility of redeveloping its factory estate sites for residential use, taking into account environmental constraints, building capacity and economic returns. The development potential of each site will be determined individually. The study will be completed in 1998.

2.5 The Government has also adopted a transparent approach to forecasts of land disposal. A five-year Land Disposal Programme, which is site specific for the first two years, will be announced each year. The first such programme, covering the period 1997-98 to 2001-02, will provide 285 hectares of land for public sector housing development and 405 hectares of land for private sector development⁷. The programme will be updated and rolled forward annually.

2.6 Land for public sector housing development will be made available to the HA and the Housing Society (HS) in good time. For the private sector, the Government will implement its land disposal programme flexibly, taking into consideration the state of the private property market. A land bank will be in place so that additional land can be put onto the market when demand so justifies.

Infrastructure

2.7 Housing development does not just involve the construction of residential flats, but also requires the timely completion of matching infrastructure and community facilities. Housing sites must be formed and access provided for construction to begin. Infrastructure and community facilities such as water supply and treatment facilities, sewage systems, railways, roads and schools also have to be built in time for the occupation of residential flats.

2.8 In the past, mismatch between the timing of the availability of housing sites and required facilities has often led to delay in housing development. Monitoring and co-ordination of the planning and implementation of housing related infrastructure has not always been adequate. Government procedures have taken place sequentially, rather than in parallel, and too little use has been made of private sector expertise and resources.

⁷ The total of 690 hectares translates into flat production of about 346 000 units.

2.9 To solve these problems, the Government has streamlined public works procedures. In future -

- (a) planning and engineering feasibility studies for new Strategic Growth Areas will be integrated, so that all related projects, including roads, sewerage and drainage projects, will be planned at the same time;
- (b) reclamation work will be fast-tracked by conducting in parallel the statutory gazettal procedures required by the Town Planning Ordinance and the Foreshore and Seabed (Reclamations) Ordinance;
- (c) funds will be sought to enable detailed design work to be carried out in parallel with statutory procedures;
- (d) tenders will be invited for site formation and infrastructure work in parallel with the seeking of final endorsement of funding for the project⁸; and
- (e) legislation will be introduced to impose a nine-month statutory time limit for resolving objections to draft town plans and infrastructure projects.

Taken together, these measures will reduce the time required for land formation and the provision of housing-related infrastructure by up to four and a half years.

2.10 The Government is also determined to accelerate the provision of housing-related infrastructure. Specifically, the Government will -

- (a) implement strategic rail and road networks to maximise the potential of individual housing sites;

⁸ That is, in parallel with seeking Finance Committee approval for upgrading to Category A status.

- (b) spend over \$11 billion over the period 1997-98 to 2001-02 to accelerate housing-related infrastructure, including water works, sewerage, land formation and schools;
- (c) use the flexibility and resources available in the private sector by entrusting to it the construction of infrastructure projects necessary to support housing development⁹;
- (d) allow developers, subject to the outcome of a pilot scheme, to carry out through their own contractors public works such as water supply connections; and
- (e) improve the project management skills of professional and technical staff in key works departments. This will be particularly important for staff of the Territory Development Department who co-ordinate and manage a substantial proportion of the works programme to supply land and associated infrastructure for housing.

Shortening development procedures

2.11 The process of housing development starts from the identification of sites and ends with the completion of flats. It normally includes carrying out outline planning studies and engineering feasibility studies, various approvals (namely, planning approval, land approval, environmental approval and building approval), gazetting where reclamation needs to be carried out or private land needs to be resumed, land formation works, and building and infrastructural works. Over time, this development process has become too long and complex, albeit partly in response to community aspirations.

⁹ Such entrustment may take the form either of creating an item in the Public Works Programme whereby the private developer will be reimbursed for works undertaken, or requiring the construction of necessary infrastructure works by imposing appropriate conditions in land sale or lease modification documentation.

2.12 The Government is determined to improve the efficiency of this entire process and to achieve a greater degree of certainty and transparency. Better co-ordination among concerned bureaux and departments, additional resources for them to deal with the work, more interaction between the private sector and the Government, and stricter time limits for the various procedures involved are essential.

2.13 Against this background, the Government has taken action to accelerate and simplify the housing development process -

(a) *planning, land and environmental approvals*

The Planning, Lands and Environmental Protection Departments have taken steps to streamline procedures affecting housing development. In future, the Planning Department will reply within six weeks to submissions relating to schemes already approved by the Town Planning Board. The Environmental Protection Department will issue a Practice Note to help Authorised Persons to comply with traffic noise mitigation requirements. The Lands Department will delegate to district level the authority to approve minor aspects of lease conditions, simplify and contract out work on deeds of mutual covenant, and avoid requirements for duplicate master layout plans.

(b) *building plans*

The Building Authority will in future decide within six weeks whether a building proposal is fundamentally acceptable and convey the decision to interested parties such as Authorised Persons. Approval and consent for amendment plans will be issued at the same time, thereby saving four weeks each time a submission is required. Applicants will be notified quickly whether a foundation proposal is acceptable or, if not, the grounds for disapproval. This will also reduce processing time. Foundation works and excavation works for substructures will in future be allowed to proceed concurrently.

(c) *Housing Authority development procedures*

The Government has conducted a critical analysis of the function and usefulness of each step in the development process of the HA, reviewed each task of the approving authorities and committees, and assessed the amount of time which can be cut from the process. As a result, the standard lead time for a project, from site availability to flat completion, will be reduced from 62 to 47 months. This will be achieved by -

- (i) starting work (i.e. feasibility studies) at an early stage in parallel with studies carried out by the Territory Development Department;
- (ii) combining or dispensing with internal and external committee meetings whenever practicable; and
- (iii) combining piling and building contracts to shorten the construction lead time.

(d) *Housing Society development procedures*

The Government has carried out a similar analysis of the development process of the HS. By taking similar measures to those taken in respect of the HA, and by streamlining the preparation of land grants (which are not required for the HA), the Government has reduced the standard lead time for a project, from site availability to flat completion, from 52 to 46 months.

Construction industry

2.14 The Government has completed a trade-specific study of the manpower requirements of the construction industry over the next five years. The study indicates that labour demand for on-site workers will grow substantially. The Government will meet the labour needs of the industry primarily through an expanded, sustained and flexible training and retraining programme for local workers.

CHAPTER 3 THIRTEEN-YEAR FLAT PRODUCTION PROGRAMME

Long term flat production programme

3.1 In order to achieve the long-term target of producing not less than 85 000 flats a year¹⁰, it is necessary to establish and maintain a long-term flat production programme. The first three years of such a programme cover the period when flat construction is already under way. In the subsequent five years, sites must be prepared for allocation or sale for housing development. In the following five years, new areas capable of development to meet the annual flat production target must be clearly identified.

3.2 The Government will therefore publish every year, beginning in 1998, a 13-year flat production programme. The programme will be based on the most up-to-date Land Disposal Programme, the housing programmes of the HA and the HS, past trends for redevelopment, lease modification and land exchange, and information on housing projects being undertaken or planned by private developers independently.

3.3 The production of such a sophisticated programme requires the maintenance of a centralised inventory of housing sites, a clear delineation of responsibility for the delivery of housing projects, and an efficient system for solving problems related to flat production.

Flat production control lists

3.4 The 13-year production programme will be co-ordinated and rolled forward each year by the Housing Bureau and approved by the Steering Committee on Land Supply for Housing (HOUSCOM), chaired by the Financial Secretary.

¹⁰ See paragraphs 1.6 to 1.9 above.

3.5 An inventory of all housing developments for the period 1997-98 to 2004-05, that is, for the first two segments of the programme, has already been compiled. It involves the production of about 780 000 flats in the public and private sectors. Lists of sites for each year with details of anticipated flat production in different categories¹¹, have been worked out.

Ensuring flat delivery : system of accountability

3.6 The responsibility for ensuring the delivery of housing projects on the control lists falls on three Government departments. They are charged with seeing the projects through different stages from site identification to flat completion, and with co-ordinating the efforts of other concerned departments.

3.7 The Director of Housing has overall responsibility for public sector housing projects¹² through all stages of the development process, except that within New Towns, Strategic Growth Areas and major development areas, the Director of Territory Development is responsible for the delivery of public housing sites to the Director of Housing for flat production.

3.8 For private housing developments¹³, the Director of Lands has overall responsibility for all stages up to flat completion. Again, within New Towns, Strategic Growth Areas and major development areas, the Director of Territory Development is responsible for delivering the private housing sites to the Director of Lands for disposal.

3.9 The roles of the three lead departments for housing projects are summarised below -

¹¹ The categories are : HA production, HS production, Private Sector Participation Scheme (PSPS), Sandwich Class Housing (SCH), private sector development and private sector redevelopment.

¹² Including those undertaken under the PSPS, but excluding projects undertaken by the HS.

¹³ For monitoring purposes, HS projects are grouped with private housing developments.

	Projects within New Towns, SGAs and major development areas		Projects in other areas	
	Public housing	Private housing	Public housing	Private housing
Site delivery	TDD	TDD	HD	LandsD
Flat production delivery	HD	LandsD	HD	LandsD

3.10 Each of the housing projects in the control lists is the personal responsibility of a nominated directorate officer, the “Project Director” from the concerned lead department, with the Head of Department exercising the normal supervisory role.

Problem solving

3.11 The primary responsibility of a Project Director is to keep strictly to the production timetable indicated in the control lists, and endeavour to resolve problems holding up site delivery and flat production at the appropriate inter-departmental district forum. If difficulties are insurmountable at the district level, they are reported to concerned Heads of Department and, if necessary, to a panel headed by the Secretary for Housing and the Secretary for Planning, Environment and Lands for resolution¹⁴. HOUSCOM is the final decision making body for problems related to housing production which cannot otherwise be resolved.

Monitoring flat production

3.12 Project Directors will also report every month on all housing projects to the Housing Bureau, which has the central monitoring role for the flat production programme. Any departure from the established yearly flat production estimates will be redressed as the highest priority.

¹⁴ The Secretary of Housing will resolve site-specific problems with the assistance of the Housing Project Action Team. The Secretary for Planning, Environment and Lands will resolve problems with land or planning policy implications using the forum of the Committee on Planning and Land Development.

CHAPTER 4 PRIVATE SECTOR

Role of private sector

4.1 The private sector has a crucial role to play in meeting the housing needs of the community. As described above¹⁵, the Government will provide a steady and sufficient supply of land for private housing development, streamline and accelerate approval procedures, and address constraints in the supply of labour in the construction industry .

4.2 In addition, the Government will provide developers with the opportunity to contribute to the public housing programme so that they can play a proper role in the interests of the wider community. The Government will supplement the efforts of the private sector in the process of urban renewal. The Government will also continue to monitor the private residential property market to ensure that it operates in a fair and competitive manner.

4.3 These strategic initiatives by the Government will enable private developers to fulfil the task which the community expects of them. By developing new land, redeveloping old buildings and applying for land exchange and lease modification, private developers should be able, subject to market developments, to produce 35 000 flats a year from 2000 onwards. As noted above¹⁶, the actual number of flats produced in any particular year will vary, depending on market demand and commercial decisions taken by private developers.

Private sector contribution to public housing programme

4.4 The Government will encourage further private sector involvement in our public housing programme so as to improve the quality, variety of design and standard of management of the flats concerned.

¹⁵ See Chapter 2.

¹⁶ See paragraph 1.8.

4.5 One further way in which the Government will put this strategic initiative into practice is to invite private developers to build subsidised home ownership flats as part of a mixed development. Under this approach, residential sites will be offered for sale by tender. The successful tenderer will be required to hand over a specified proportion of flats within the development to the Government for sale to eligible purchasers at designated prices. The flats will be selected at random throughout the development. The developer will provide and manage common facilities.

4.6 This new approach will allow purchasers of subsidised home ownership flats to enjoy higher standards of design, finish, facilities and management than under the present PSPS. It will also provide a greater range of products, and therefore more choice for purchasers.

4.7 The HS will be invited to carry out a pilot scheme in early 1998. Private developers will be required to hand over at least 30% of flats in a development to the Government for sale to eligible purchasers at designated prices under our subsidised home ownership programme. The pilot scheme, to be conducted on two sites, will provide over 500 subsidised home ownership flats by 2001. If successful, an increasing proportion of subsidised home ownership flats will be provided using this mixed development approach.

Flat size

4.8 There is an increasing demand for larger flats in the private sector, partly as a result of higher public aspirations and partly because of the increasingly important role played by overseas executives and professionals in Hong Kong's economy. The Government will encourage private developers to make available a higher proportion of flats to this target group, and will itself take the lead by selling surplus Government staff quarters, which are large, in the secondary market.

Urban renewal

4.9 About two-thirds of total private sector housing production over the past ten years has come from redevelopment of existing sites throughout Hong Kong. The Government has long recognised the importance of private sector redevelopment as a means of both satisfying housing demand and improving the urban environment. As the costs of acquiring properties and relocating owners and tenants increase, carrying out private redevelopment projects becomes more difficult. The private sector alone is unlikely to achieve urban renewal to the same extent as in the past.

4.10 The Government has therefore instructed the Land Development Corporation (LDC) to co-operate with the HS to carry out urban renewal projects. The HS will act as rehousing agent using new sites to be granted by the Government for this purpose, thus leaving the LDC to concentrate on planning, site assembly and implementation¹⁷. The Government has recently given approval to the LDC to proceed with detailed planning of 26 projects throughout the older urban areas. To facilitate the LDC's work, dedicated teams have also been set up in the Planning, Environment and Lands Bureau and the Lands and Planning Departments¹⁸.

¹⁷ The Government will introduce legislation in 1998 to facilitate land assembly, thus helping private developers to maximise their ability to produce flats using their existing land holdings.

¹⁸ The Government will also consider ways to encourage the repair and renovation of existing buildings as an alternative to redevelopment. A Building Safety Inspection Scheme is being considered to encourage owners to carry out the necessary maintenance and repairs, with the assistance of a loan fund to help owners as necessary. In the longer term, ways will also be considered to promote new technology for producing more durable buildings.

4.11 An Urban Renewal Authority (URA) is being planned to replace the LDC in 1999, and will be provided with statutory powers to expedite urban redevelopment on a larger scale and in a more comprehensive manner. In the meantime, the Government is conducting a comprehensive Urban Renewal Strategy Study which covers all the urban areas in Hong Kong, and which will form the basis for an urban renewal strategy to guide the URA in planning its projects. The study has initially identified more than 600 projects in the older urban areas for further consideration. Results of the study will be available around mid-1998.

Speculation and consumer protection

4.12 The Government recognises the importance of property prices to the economy and to the community. While the Government's policy is to allow the residential property market to operate freely as far as possible, it will closely monitor the market and intervene if it becomes necessary, as was the case in 1994 and 1997. The ultimate and effective way to stabilise property prices and discourage property speculation lies in an adequate supply of land for housing development and the production of more housing flats.

4.13 The Government is also determined to protect the interests of genuine home buyers when they purchase flats. For many families, buying a flat represents the single most important investment decision they will take. The Government has set up an Estate Agents Authority (EAA) to control and implement a regulatory and licensing system for estate agents. The EAA will regulate the practice of estate agents, provide training courses to the trade, determine licensing requirements, and investigate complaints.

CHAPTER 5 DRIVE FOR HOME OWNERSHIP

Encouraging home ownership

5.1 The Government believes that home ownership is the aspiration of many in the community. The Chief Executive has announced a target of 70% home ownership by 2007. This represents a major improvement on the existing rate of 52%. The Government is fully determined to achieve this target, which will foster social stability and a sense of belonging, and help families to provide for their own future financial security. An increasing number of households in Hong Kong favour home ownership over other forms of tenure. It gives them a sense of independence, and control over their own homes. Flat owners know that, when mortgages have been paid off, they will have the security of an asset which will help to maintain their standard of living.

5.2 Since home ownership in the private sector remains beyond the reach of many families, the Government will continue to operate and expand its existing subsidised home ownership schemes for middle and low income families. But the existing schemes¹⁹, on their own, are inadequate. The Government is determined to do more to help families in the lower and middle income groups to become home owners, without neglecting the demand for public rental housing from people in genuine need. The Government will in future offer all prospective public housing tenants the opportunity to buy public flats at subsidised prices; introduce a new scheme to sell public rental flats cheaply to existing tenants; allow public housing tenants to buy SCH flats; and provide loans to families who are buying a home for the first time.

¹⁹ That is, Home Ownership Scheme (HOS), PSPS, Flats For Sale Scheme and SCH Scheme, as well as the various loan schemes described below.

Option to buy or rent

5.3 Starting in 1998, the Government will offer prospective public housing tenants the option of buying flats at a discounted price. This “buy or rent” scheme will have the important effect of meeting the aspirations to home ownership of lower income families and providing them with the opportunity to move up the ladder to home ownership without the need to go through the interim stage of public rental housing²⁰.

Sale of public rental flats to existing tenants

5.4 The sale of public rental flats to existing tenants is another important component of the Government’s strategy to promote home ownership in the community. It will greatly increase the opportunity for low income families to purchase their own homes. The Government will offer at least 250 000 flats for sale over the next ten years. The sale of a first batch of about 27 000 flats will take place in early 1998, with flats selected from a mix of estates in the urban area and the New Territories.

5.5 Prices will be reasonable and affordable to tenants generally²¹. Flexible mortgage arrangements will be negotiated with financial institutions; the condition of flats will be checked and essential renovation work carried out before sale; a structural guarantee for a specified period will be provided; Owners’ Corporations will be set up; maintenance funds will be established with contributions, partly from sale proceeds; and reasonable resale conditions will be set.

²⁰ The detailed arrangements for the “buy or rent” scheme, including pricing formula and mortgage arrangements, will be worked out by the HA. For example, the HA will consider providing mortgage subsidies to tenants affected by redevelopment who choose to buy their new flats.

²¹ The basic sale price will be set by reference to the “adjusted replacement cost” approach. Under this approach, the price of a flat is based on the present day cost of replacing it, with adjustments to take into account age, location and other relevant factors.

“Sandwich class”

5.6 The Government recognises the existence of a large “sandwich class”, broadly defined as families who are not eligible for low income housing schemes but who lack the resources to purchase reasonable accommodation in the private sector. They include numerous young managerial and professional couples who contribute significantly to Hong Kong’s economic well-being. The major housing problem faced by many of these families is saving for initial downpayments. Denied the opportunity either to enrol in the Government’s low cost housing programme, or to buy in the private sector, such families face a long wait before they can acquire accommodation appropriate to their circumstances.

5.7 The Government is committed to addressing the housing needs of the sandwich class, and has implemented a SCH programme targeted at families living in private rented accommodation with monthly incomes currently between \$30,001 and \$60,000. The programme comprises a main scheme and a loan scheme. The main scheme involves the granting of land on concessionary terms to the HS to build flats for sale. The Government has set a target production of 50 000 SCH flats by 2005. The loan scheme assists families to purchase their own homes in the private sector²². The housing demand of the sandwich class will be substantially met by these initiatives.

5.8 In addition to sandwich class families living in the private sector, many public housing tenants and prospective tenants already now fall within the SCH income criteria. Such families have previously been denied the opportunity to buy SCH flats. The Government will in future allow public housing tenants and prospective tenants to buy SCH flats. This will enable middle income families in public rental housing the opportunity to move towards home ownership, and at the same time release flats for re-allocation to other families in greater need.

²² \$3.38 billion has so far been injected into the SCH Loan Scheme (SCHLS).

First time home buyers

5.9 The chief beneficiaries of the initiatives described in the preceding paragraphs will be in public sector housing. The Government is also determined to meet the aspirations to home ownership of those who wish to buy in the private sector but lack the means to do so. Given some financial assistance, they would be able to purchase their own flats. The majority of these people are first time home buyers.

5.10 The Government already operates two loan schemes designed to help low and middle-income families to buy flats in the private sector. The Home Purchase Loan Scheme (HPLS), operated by the HA, was set up to help low-income families. The SCHLS, referred to above, was introduced to help middle-income households. These schemes have persistently been oversubscribed²³, demonstrating the extent of pent-up demand. Simply expanding these schemes, however, will not be an adequate solution because neither of them was targeted at first time home buyers.

5.11 It is against this background that the Chief Executive announced that a new “Home Starter Loan Scheme” (HSLs) will be launched, targeted specifically at first time home buyers with monthly household incomes currently not exceeding \$70,000. The Government is committed to offering low interest loans to eligible low and middle income families who are unable to purchase their own homes owing to high property prices and who lack the initially substantial downpayments. 6 000 loans will be provided in each of the next five years. The maximum loan amount will be \$600,000.

5.12 The Government will review the current operation of the existing HPLS and the SCHLS. In the case of the HPLS, the Government will encourage the HA to increase the number of loans granted.

²³ By an average of 3 times (HPLS) and 4 times (SCHLS) in the last two years.

Hong Kong Mortgage Corporation

5.13 As a result of increased supply of flats for sale, there will be a continuing rise in the demand for mortgages. An adequate supply of mortgage loans to meet demand is essential.

5.14 In March 1997, the Government set up the Hong Kong Mortgage Corporation (HKMC). The HKMC purchases mortgage loans from authorised banks and deposit taking companies, and will in turn issue mortgage-backed securities. Apart from enhancing banking and monetary stability and promoting development of the local debt market, the HKMC will increase the amount of mortgage finance available to home buyers and thereby help to boost the overall home ownership rate in the community.

CHAPTER 6 PUBLIC RENTAL HOUSING

Principle of genuine need

6.1 The Government fully recognises its responsibility to provide public rental housing to families in genuine need who cannot afford adequate accommodation of other types. The Chief Executive has pledged that the average waiting time for public housing will be reduced from the current six and a half years to three years by 2005.

6.2 To ensure that the principle of genuine need is put into effect, the Government is determined to apply means tests to prospective public housing tenants and long term tenants (i.e. after 10 years' stay in public rental housing); to limit the transfer of tenancies on the death of principal tenants; to charge fair but affordable rents; to limit the pre-emption of flat allocation arising from redevelopment and overcrowding relief; and to provide a long term solution to the demand for interim housing. At the same time, the Government will substantially increase the number of flats allocated to families on the public housing Waiting List. Taken together, these measures will radically reduce the waiting time for public housing for families in genuine need.

Waiting time for public rental housing

6.3 A Waiting List is operated for allocation of new or refurbished public rental flats to eligible applicants on a first-come-first-served basis. Applicants are vetted for eligibility when their turn comes up for investigation. To be eligible, applicants must have at least seven years' residence in Hong Kong, no private domestic property and household incomes below the Waiting List Income Limits.

6.4 The average waiting time for a public rental flat is six and a half years. The Government has pledged to reduce this, on average, to under five years by 2001 (almost a 50% improvement on 1990 when the waiting time was nine years), to four years by 2003 and to three years by 2005. To achieve this, the Government will increase the supply of new or refurbished flats to families on the Waiting List from an annual average of 14 000 flats to 20 000 flats beginning in 2000.

Means tests

6.5 Although income limits are one of the eligibility criteria for public rental housing applicants on the Waiting List, hitherto there have been no limits on assets, other than the restriction on ownership of private domestic property²⁴. Furthermore, a large proportion of public rental flats available each year for allocation has been taken up by committed categories, including clearances and compassionate and emergency rehousing. Households in these categories have been exempt from any form of means test.

6.6 To ensure that housing resources are allocated to people most in need, that is, to those who really cannot afford adequate housing in the private or subsidised home ownership sectors, limits on both income and assets should be set for all public housing applicants. Prospective tenants will be required in future, before entry, to undergo comprehensive means tests, covering both income and net assets²⁵.

²⁴ Also, after ten years' residence and every two years thereafter, HA tenants are required to make an income declaration. Those whose household income exceeds specified limits are required to pay extra rent. Double rent payers undergo comprehensive means tests, covering both income and net assets, every two years thereafter.

²⁵ Families displaced by clearance operations who fail the means tests will be offered interim housing as they may still have a temporary need for housing. But their length of stay in interim housing will be restricted to a limited period of one year. During this period, they will be given priority for the purchase of HOS/PSPS flats or the grant of HPLS loans, subject to meeting the normal eligibility criteria.

Transfer of public housing tenancies

6.7 Hitherto, the tenancy of a public rental flat could be passed on to the surviving spouse, without means testing, upon the death of the principal tenant. Where there is no surviving spouse, the tenancy could be granted to another adult member of the same household, subject to an income test. Additional rent is charged if the household income exceeds the specified limit.

6.8 As a matter of equity, the Government will not permit public rental tenancies to be passed on automatically from one generation to the next. Grant of a new tenancy (other than to the surviving spouse) will have to be justified on the basis of genuine need. Adult members of a family where the principal tenant and the spouse are both deceased will be required in future to undergo comprehensive means tests, covering both income and net assets, before the grant of a new tenancy. Families who fail the means tests in these circumstances and who still have a temporary need for housing may be allowed to stay in the public rental flat for a limited period of one year, but they will be required to pay market rent during this period.

Fair rents

6.9 Public housing rent levels are determined on the basis of tenants' ability to pay. The principle of affordability is translated by the HA into appropriate median rent to income ratio ceilings for its estates²⁶. The HA also takes into account inflation, its own operating costs and the relative value of the housing estate.

²⁶ Recently, the Housing (Amendment) Ordinance 1997 limits the overall median rent to income ratio of households to 10%.

6.10 Rent relief may be provided to tenants who face financial hardship temporarily. This reduction in rent is provided for up to two years, subject to review after 12 months. Tenants who continue to face difficulty will normally be required to transfer to housing with low rents in the same district .

6.11 The Government continues to uphold the principle of affordability, and looks to the HA to put this principle into practice. The Government and the HA will review and revise, where necessary, the conditions governing the provision of temporary rent assistance.

Public housing redevelopment

6.12 In providing public rental housing, the Government's first priority is to help those who are in genuine need of public rental flats before improving the living conditions of those to whom flats have already been allocated. A large-scale public housing redevelopment programme inevitably exerts a heavy drain on land, manpower and financial resources. Redevelopment should be therefore undertaken only when necessary to replace housing blocks which are no longer safe or economic to maintain. And even then, redevelopment should be undertaken on a selective estate by estate basis since it may not be necessary or appropriate to redevelop a whole class of estate.

6.13 The final phase of the HA's Comprehensive Redevelopment Programme will be spread over the period up to 2005. Any redevelopment thereafter will be carried out selectively on an estate by estate basis, and will be dictated by the structural condition of rental blocks, the economic benefits of redevelopment, and the availability of reception flats.

Space allocation

6.14 Public housing tenants have hitherto benefited from a special quota for relief of overcrowding . On the other hand, many families in private rental housing, including families on the Waiting List for public rental housing, are living in overcrowded conditions and are paying more rent than their public sector counterparts. To redress this inequity, the Government considers that in future applications from public rental tenants for the allocation of additional flats should be made through the Waiting List. The Government will also need to consider cautiously any proposal to further improve existing space allocation standards, particularly when there is still a substantial outstanding demand on the Waiting List.

Interim housing

6.15 There is a continuing and long-term need for interim accommodation by families who do not qualify for public rental housing but require shelter (for example, as a result of clearance operations). Such interim accommodation (old-style THAs) has hitherto been of poor quality and the subject of public criticism. The Government will phase out these old-style THAs by 2000. Thereafter, permanent flats of a reasonable quality in high-rise blocks will be built to meet the demand for interim accommodation.

CHAPTER 7 GROUPS IN SPECIAL NEED

Special need categories

7.1 While the Government considers that the pre-emption of public rental housing should be minimised, the needs of certain categories of household require special consideration, either because of their particular circumstances or for historical reasons. Such categories include single person households, the elderly, new arrivals, squatters, residents of cottage areas and bedspace apartments, and rooftop dwellers.

Single person households

7.2 In recent years, the number of small households has increased rapidly as a result of social change. This reflects two trends : increasing life expectancy resulting in more elderly households, and a general decline in average household size.

7.3 In 1997, there were about 270 000 single person households in Hong Kong, or about 14% of the total number of households. Many of these individuals are already living in public rental housing, subsidised home ownership flats or adequate private sector accommodation. In addition, over the period up to 2001, the HA plans to allocate 43 000 small flats to eligible single persons in genuine need. The Government will continue to take timely action to meet the housing needs of this group.

Elderly people

7.4 The Government will give elderly people in need priority access to public housing, and will ensure that there is an adequate supply of flats with suitable facilities and services for them. Priority allocation schemes will continue to be implemented, and eligible elderly people will in future normally be allocated public rental flats within two years of application.

7.5 The Government will also launch a scheme to benefit “sandwich class” elderly people, known as the Senior Citizen Residence Scheme. Two sites, suitable for constructing 500 flats ranging from 25m² to 50m², have been identified for a pilot project, and the flats will be completed not later than 2000-01. Residents will be provided with medical and other facilities on site. The HS will be invited to take up the role of project developer and estate manager.

7.6 The Chief Executive has tasked the Elderly Commission to assess the demand for housing and residential care for the elderly, and to make recommendations in 1998 on a comprehensive strategy to meet this demand.

New arrivals from the mainland of China

7.7 The Government recognises a particular responsibility to new arrivals from the mainland of China. While it is important that priority in the provision of housing be given to Hong Kong residents who have fulfilled the seven year residence rule, there is no doubt that many newly arrived families face serious difficulty in securing adequate accommodation. The Government will advise new arrivals of available housing facilities on their arrival in Hong Kong and will provide them with assistance in registering for public housing programmes for which they may be eligible.

Squatters

7.8 Despite a substantial reduction in squatter population during the last decade, there remain 235 000 squatters, most of them living in the New Territories. The Government is determined to solve the housing problem of these remaining squatters over time.

- 7.9 The Government's squatter clearance programme will -
- (a) remove structures which are exposed to immediate and obvious landslip danger or are vulnerable to landslips (safety clearances);
 - (b) clear land for public development (development clearances); and
 - (c) remove structures to improve the environment or living standards (improvement clearances).

7.10 The Government anticipates that 40 000 squatters will be cleared and rehoused under this programme by 2001. Major clearances will also be undertaken to facilitate the provision of new transport infrastructure in the New Territories. All other squatters who wish to obtain public rental housing will have to be registered on the Waiting List. Taken together, these measures will result in the housing problem of Hong Kong's squatters being solved.

Cottage Areas

7.11 Cottage Areas were first built on hillside terraces in 1948 to rehouse squatters in areas not required for development. There are now five Cottage Areas managed by the HA, with cottages owned by occupants, welfare organisations or the Government. The Government has decided to clear all of them by 2001 in order to improve their living conditions and the environment.

Bedspace apartments

7.12 The living conditions of bedspace apartment dwellers are less than satisfactory. In 1994, the Bedspace Apartments Ordinance was enacted to regulate the fire and building safety of bedspace apartments. The latter are required to comply with the new safety standards by 1998. As it is the Government's policy that no one should be rendered homeless as a result of this exercise, public rental housing will be offered by 2001 to all eligible elderly bedspace apartment dwellers, and to any other households which are displaced from bedspace apartments which do not meet the new safety standards.

Rooftop dwellers

7.13 Rooftop structures are often unauthorised structures built on rooftops of tenement buildings, largely in the urban and extended urban areas. Since the 1980's, the Buildings Department has conducted clearances of illegal rooftop structures to remove risks to building structure and fire escape routes, and to protect the public interest. The Housing Department has assisted in rehousing people who are rendered homeless.

7.14 The Government is determined to solve the housing problem faced by rooftop dwellers. In future, the Government will adopt the following guiding principles for clearance operations -

- (a) rooftop dwellers who are eligible for public rental housing will continue to be encouraged to register on the public housing Waiting List; and
- (b) persons who are homeless as a result of demolition of rooftop structures will be accommodated in interim housing.

CHAPTER 8 CONCLUSION : INTO THE 21ST CENTURY

8.1 The Government is fully committed to solving the housing problem in Hong Kong, and will do everything it can to achieve the key housing objectives of helping all households gain access to adequate and affordable housing, and of encouraging home ownership in the community.

8.2 For this purpose, the Government will fulfil the pledges made in the Chief Executive's Policy Address on 8 October 1997. Three major pledges are crucial -

- (a) the pledge to build not less than 85 000 flats a year (public and private sectors), starting from 1999-2000, as a long-term target to meet the future needs of the community. To achieve this, a sufficient and steady supply of land will be provided. An effective mechanism to fast-track housing projects and related infrastructure and to cut red tape which can delay or frustrate housing production has been put in place;
- (b) the pledge to achieve a home ownership rate of 70% by 2007. The key to achieving this is a major expansion of existing subsidised home ownership schemes and loan schemes, combined with a scheme to sell public rental flats to existing tenants; and
- (c) the pledge to help people in genuine need by reducing the average waiting time for public rental flats to three years by 2005. To achieve this goal, more flats will be allocated each year to public housing Waiting List applicants.

8.3 These objectives and initiatives have been brought together in this White Paper. It is important that the Government's housing strategy is kept under review, so that it can respond quickly to changing circumstances. A Long Term Housing Strategy Advisory Committee will be established to assist the Secretary for Housing in this important task²⁷.

8.4 As a result of the forward-looking initiatives in this White Paper, a scenario of optimism will emerge. There will be a more equitable system of allocation of public rental flats, which, together with an increased number of flats available for allocation, will shorten the waiting time for families on the Waiting List, thus benefiting people in genuine need. Existing and prospective public housing tenants will have greater opportunities to purchase their own homes. Families in the private sector too will find it easier to satisfy their aspirations to home ownership as flat supply increases and property prices stabilise. The Government will provide help to eligible families through its subsidised home ownership schemes and loan schemes. Private sector developers will be given every opportunity to contribute fully towards meeting the housing needs of the community. Overall, there will be more equitable use of public resources and greater choices of housing for all.

8.5 The Government of the Hong Kong Special Administrative Region has set a new direction and given new impetus to Hong Kong's housing strategy. The Government has confidence and ability to meet the challenges ahead with vision and determination. We will need the co-operation, help and support of the entire community. Working together with one mind and one heart, we will achieve our goal.

²⁷ The Advisory Committee will monitor implementation and may assume the role of a "think tank" on general housing policy issues. Its functions are distinct from those of HOUSCOM, which is a task force concerned with streamlining internal Government procedures in order to enable the production of not less than 85 000 flats a year.