

# **Report of the Ad Hoc Committee to Review Domestic Rent Policy and Allocation Standards**

## **Hong Kong Housing Authority**

**December 1990**

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### **INTRODUCTION**

#### **BACKGROUND**

At the meeting of the Management and Operations Committee on 27 July 1989, Members endorsed the proposal to set up an ad hoc committee under the Housing Authority to review the current domestic rent policy and allocation standards. In August 1989, the Housing Authority agreed to the proposal to set up the Ad Hoc Committee to Review Domestic Rent Policy and Allocation Standards.

#### **TERMS OF REFERENCE**

The terms of reference of the Committee are as follows -

- (a) to review the current domestic rent policy and allocation standards of the Housing Authority taking into account the social objective of the public housing programme and the financial performance of the Authority; and
- (b) to make recommendations on necessary changes to the Authority.

#### **MEMBERSHIP**

The membership of the Committee is as follows -

### **CHAIRMAN**

The Hon. HUI Yin-fat, OBE, JP

### **MEMBERS**

Mr. Carlos H.K. CHEUNG

Mr. PAO Ping-wing, JP

Dr. Joseph Y.S. CHENG

Mr. HAU Shui-pui

Mr. FUNG Kin-kee

Mr. FUNG Tung, JP, Deputy Director/Housing Management, Housing Department (up to 7 June 1990)

Mr. Y.G. LIM, Deputy Director/Housing Management, Housing Department (since 8 June 1990)

Mr. N. C. L. Shipman, Deputy Director/Housing Management, Housing Department (since 28 August 1990)

### **SECRETARY**

Mrs. Marion LAI, Senior Administrative Officer/Housing Management, Housing Department (up to 13 November 1990)

Mr. YUEN Hon-keung, Senior Administrative Officer/Housing Management, Housing Department (since 14 November 1990)

Since the Committee started its work in October 1989, ten meetings have been held.

## **CHAPTER I**

### **BACKGROUND ISSUES: SOCIAL OBJECTIVE,**

### **FINANCIAL PERFORMANCE AND PUBLIC CONSULTATION**

#### **INTRODUCTION**

1.1 The Committee is tasked to review the current domestic rent policy and allocation standards taking into account the social objective of the public housing programme and the financial performance of the Authority. In order to know what the public views are on the current domestic rent policy and allocation standards, the Committee has conducted a public consultation exercise. Set out in the paragraphs below are the details regarding the financial performance of the Authority, the social objective of public housing programme and the public consultation.

#### **SOCIAL OBJECTIVES OF PUBLIC HOUSING PROGRAMME**

1.2 The Committee is of the view that the social objective of the public housing programme has always been to provide subsidised accommodation at an affordable rent to selected groups of people on the basis of need. The aim is therefore to allocate public housing on the grounds of need for the lower income families who do not have the means

to find adequate accommodation in the private sector. Public housing tenants have been admitted on a selectivity basis and the rents have been kept at a low level to meet the needs of the target group. Indeed, tenants' affordability has always been a major consideration in rent fixing for new estates or in regular rent reviews.

## **FINANCIAL ARRANGEMENTS WITH GOVERNMENT AND FINANCIAL PERFORMANCE OF THE HOUSING AUTHORITY**

### **(I) NEW FINANCIAL ARRANGEMENTS**

1.3 New financial arrangements were introduced at the time of the Authority's re-organisation on 1 April 1988. The Authority is now responsible for financing all public sector housing activities with the Government continuing to subsidise the public housing programme through the grant of land on concessionary terms and injection of permanent capital, as demonstrated by the Authority's need. The revised financial arrangements are summarised in the ensuing paragraphs -

#### **(A) Government's Permanent Capital**

1.4 The closing balance of \$2,795.6M in the Government's former Home Ownership Fund (HOF) was transferred to the Authority as Government's capital, and the Development Loan Fund loans (DLF) amounting to \$13,488.8M as at 31 March 1988 were capitalised. Both these items, amounting to \$16,284.4M, formed the opening permanent capital as at 1 April 1988. The Government has agreed in principle to inject a total supplementary capital of \$10,000M.

#### **(B) Contribution to Domestic Housing**

1.5 The land value for the domestic element of public rental housing continues to be accounted for as Government's contribution to domestic housing. The difference between the land value and the land cost for the domestic element in the Home Ownership Scheme (HOS) is also subsidized by Government and added as its contribution to domestic housing in the Authority's accounts. As at 1 April 1988, the Government's contribution amounted to \$32,585M.

#### **(C) Non-Domestic Equity**

1.6 The land value for the non-domestic elements in Home Ownership estates and rental estates is regarded as Government's non-domestic equity in the Authority. As at 1 April 1988, the Government's contribution to non-domestic equity amounted to \$5,704M.

#### **(D) Interest and Dividend Payments to Government**

1.7 With effect from 1 April 1988, the interest on Government's permanent capital is set at 5% per annum but the Authority is not required to pay interest on Government's contribution to domestic housing. Overall surpluses arising from the operation of commercial facilities and carparks are shared equally (viz. 50/50 basis) between the Authority and Government in recognition of the Government's non-domestic equity in the Authority.

#### **(E) Contingent Liability**

1.8 The Authority has assumed the contingent liability relating to -

- (a) mortgage default guarantees for the HOS and the Private Sector Participation Scheme (PSPS); and
- (b) unsold flats and shortfall in selling price under the PSPS.

#### **(F) Other Areas**

1.9 The Authority becomes responsible for meeting expenditure for the development and management of temporary housing areas and transit centres and the management of cottage areas. However, expenditure on squatter control, clearance, and squatter area improvement projects, which are undertaken by the Authority on an agency basis for the Government, would be fully funded by the Government.

## **(II) Advantages of New Financial Arrangements**

1.10 The advantages of the new financial arrangements are -

(A) it gives the Housing Authority greater financial autonomy and enables the Housing Authority to put its resources where its priorities are, without having to be affected by the state of Government's finance;

(B) the Housing Authority will receive capital injections from Government up to a total amount of \$10,000M from 1988/89 to 1993/94 to help finance its construction programme; and

(C) the symbiotic relationship between Government and the Housing Authority would continue, with the former continuing to treat public housing as a major social programme by providing subsidised land and guaranteeing the Authority's solvency.

## **(II) AUTHORITY'S FINANCIAL PERFORMANCE**

1.11 The financial performance of the Authority can be examined in the light of its recent actual outturn, current budgets and the latest financial forecasts. With reference to this information, the Authority's financial position can be highlighted, as follows -

(i) According to the recently issued audited accounts covering the financial year 1989/90, the Authority incurred an overall deficit of 741.220 million in its domestic estate working account (deficit of \$608.281 million in 1988/89). Having regard to the latest budgets for 1990/91 and 1991/92, the overall results also indicate that deficits will arise in the domestic account.

(ii) According to the latest financial forecasts prepared in July 1990, an improvement in the domestic account is expected in 1992/93 and it is expected that the deficit on the estate working account will be converted to a small surplus during 1993/94. The Authority's Establishment and Finance Committee will be reconsidering an updated version of the Authority's projected financial position for 1991/92 - 1995/96 in July 1991 in accordance with its usual practice.

## **ASSESSMENT**

1.12 The Authority's domestic rent revenue constitutes about 70% of its total rental income. However, due to the relatively low level of domestic rental levels which are traditionally set in keeping with the concept of "tenants' affordability", the domestic account has not been able to make any significant contribution to the Authority's overall cash flow and, as a consequence, towards financing the construction programme. Most of the financial contribution emanating from the Authority's recurrent (i.e. estate working) account has come from the surpluses generated through the non-domestic operations. Also, Government's contribution to domestic housing (which stood at \$53,950.2 million at 31 March 1990) has greatly facilitated the Authority's finances; this contribution will continue in future. On the other hand, the capital (i.e. cash) injection into the Authority by the Government will in 1991/92 reach the previously earmarked limit of \$10,000 million and from then on, the Authority will be required to finance its operations independently of any further cash subsidy (or investment) from Government. As a result, the Authority will be operating on a deficit budget and relying on external (i.e. non-Government) borrowings for its funding shortfall; this situation is likely to persist during 1991/92 and 1992/93.

## **PUBLIC CONSULTATION ON CURRENT POLICIES**

1.13 The Committee considered it useful to know what the public views are with regard to the current policies on domestic rent and allocation standards. To this end, the Committee has produced 30,000 copies of a booklet which set out the current policies. The booklets were distributed in estate offices and District Offices with effect from 15 December 1989. The public were invited to send their views on the current policies and ways to improve them to the Committee before 1 February 1990.

1.14 14 written submissions were received. The submissions come from groups and individuals. While the response cannot be described as particularly enthusiastic, it was reflective of the low level of interest in housing matters at that point in time due to the general preoccupation with other public issues.

1.15 The response gathered from the submission is quite diverse. In general, existing tenants of public housing tend to argue for more subsidy by way of maintaining current rent level and increasing space allocation. Those who live in private sector housing are however of the view that the existing level of subsidy to public housing tenants is already adequate, if not excessive.

1.16 A report summarising the public views gathered during the public consultation, including those which appeared in the press, is at Appendix A.

1.17 The Committee has also obtained information regarding domestic rent policy and allocation standards of public rental housing of other countries to assist it in its deliberations.

## **CHAPTER 2**

### **DOMESTIC RENT POLICY**

#### **(I) BACKGROUND ON DOMESTIC RENT POLICY**

2.1 The Authority's current domestic rent policy generally follows the recommendations of the 1977 Rents Policy Steering Group and the 1986 Domestic Rent Policy Review Committee with main emphasis placed on tenant's affordability and comparable estate values. The major recommendations of the Steering Group and Review Committee are at Appendices B and C respectively.

2.2 Since 1980, inclusive rents are charged for all domestic properties. Rates increases are absorbed by the Authority and are passed onto the tenants only at the time of rent reviews. As at December 1 990, the inclusive rent level for the Authority's newest urban estates was \$31-8/m<sup>2</sup>.

2.3 With the implementation of the Housing Subsidy Policy on 1 April 1987, tenants who have resided in public housing for 10 years or more with their household income exceeding the Subsidy Income Limit (SIL) are required to pay double net rent plus rates. The SIL is twice the Waiting List Income Limit which is reviewed on an annual basis. Certain categories of tenant households, however, are exempted from the application of the policy. These include those involved in redevelopment programmes, on public assistance, or those with all members aged 60 and over and admitted under the Elderly Priority Scheme etc.

#### **Rent Setting**

2.4 In general, new rents are set not to exceed 1.6% of the median rent-income ratio (MRIR) (Note 1) of the prospective tenants at the allocation standard of 5.5 m<sup>2</sup> per person Internal Floor Area (Note 2). This means that if 5.5 m<sup>2</sup> per person IFA is allocated to prospective tenants, the rent set will not exceed 15% of the household income of half of the prospective tenants. The purpose of this guideline is to ensure that the domestic rents remain affordable by the tenants. The 1986 Domestic Rent Policy Review Committee recommended that the 15% ceiling MRIR at the allocation standard of 5.5 m<sup>2</sup> per person IFA should apply to tenants rehoused into new estates from all rehousing categories. Rents in estates other than new ones should be adjusted in line with this standard according to the level of amenities, i.e., for those old housing units with less space and a lesser standard of amenities, the rents would not be raised up to a level equivalent to the new estates.

2.5 It should be noted that the MRIR is a median figure. The guideline does not imply that the rent should be set at not more than 15% of the income of each and every tenant household. The guideline means that should all tenants live at the minimum allocation standard of 5.5m<sup>2</sup> per person, the MRIR would not exceed 15%. However, should tenants

opt to live at space more than 5.5m<sup>2</sup> per person, the MRIR can in theory exceed 15%.

2.6 As regards rents on different estates, the rent levels are to reflect the comparative values of estates in terms of location, transportation, estate facilities and the general environment. New estates coming on stream are compared with those of earlier ones so as to set rents at a reasonable level. The Authority has no obligation to set rents in relation to construction costs.

2.7 Two rent setting exercises are conducted every year for about 35,000 new flats. A 'broad-brush' approach is adopted to band the estates according to their locations. The existing groupings with their corresponding 'best' (i.e. highest) rent levels are as follows -

<b>Location/Block Type</b>	<b>\$/m<sup>2</sup></b>
Urban/Shatin/Tsuen Wan/Kwai Chung	31.8
Tsing Yi/Tai Po/Tseung Kwan O	29.5
Ma On Shan/Fanling/Sheung Shui	25.7
Yuen Long/Tuen Mun	22.5
Islands	22.3
Converted Blocks	22.7

(Best Rent Level as at 19 December 1990)

### **Rent Review**

2.8 Domestic rents are reviewed on a biennial basis. This is to bring the existing rents closer to those of new estates with similar estate values. This can ensure that new rents are maintained at realistic levels to facilitate tenants to make reasonable contribution to their housing cost through rent payment within their affordability.

2.9 Factors taken into account in reviewing rents, such as tenants' affordability and comparable estate value, are broadly the same as those for rent setting. Other factors taken into account in rent review include inflation, rates increases, maintenance and management charges, etc. Old estates are weighed against each other to reflect their relative advantages and disadvantages.

2.10 With the existing 144 estates, biennial rent reviews are undertaken in five exercises within a cycle of two years. Reviews of Former Housing Authority estates are conducted in two batches, one in every April. Similarly, for the Post-1 973 estates, reviews are carried out in September. As regards Group B and Former Government Low Cost Housing estates, they are reviewed biennially in one go in December.

### **Level of Increase**

2.11 Taking into consideration the wide range of rent levels in estates, across-the-board increases on inclusive rents are applied in rent reviews. Normally, a bigger increase is proposed for estates in urban districts, with a descending scale of increase for those in the more distant areas. For estates where the existing rents are already close to reasonable and realistic levels, a smaller increase is applied. A 1 0% reduction is also given to flats on fifth floor and above in free-standing domestic blocks without lift service.

### **Hardship Cases**

2.12 For tenants who encounter financial difficulty in rent increases, arrangements are made for them to apply for public assistance or transfer to cheaper rent flats. The Social Welfare Department is also informed to make adjustments to the rental allowance for public assistance cases in every rent exercise.

### **Notice**

2.13 Tenants affected by rent reviews are given at least 6 weeks' advance notice in writing. District Board Members and other local leaders are also briefed about the increase at an appropriate time.

### **Effects of Rent Reviews in 1987-1990**

2.14 A summary of the rent increase exercises undertaken in 1987-1990 is at Appendix D. The following points are note-worthy:

#### **(A) Rent - Income Ratio**

For most estates where the base rents are low, the MRIRs of the tenant households are still well below the 15% limit, in particular the Group B & Former Government Low Cost Housing estates. In the 1987-1990 rent review exercises, the MRIR of the affected households ranged from 5.2% to 10.6%. As regards those paying double (net) rent under the Housing Subsidy Policy, the overall MRIR was only 4.7% as revealed in the survey conducted in August 1990, indicating that the double rents were still well within the affordability of the better-off tenants.

#### **(B) Increase in Percentage and Money Terms**

The average increase was 14.5% - 24.9% and in money terms \$50-122 per flat per month. Those with an increase of \$150 or more per month were mainly large flats with areas greater than 50 m<sup>2</sup>.

#### **(C) Comparison with Market Rent**

Notwithstanding the fact that public housing rents include rates, management fees and major repair charges, they represent only 17%-45% of their comparables in the private sector. The Committee has come across the view that since the Authority is heading towards financial self-sufficiency, there is no need to conduct biennial rent reviews. The Committee does not agree with this view since tenants should make reasonable contribution to their housing cost, which is presently and will continue to be heavily subsidised by Government, through paying rent affordable to them.

#### **(D) Reaction and Acceptability**

Rent increases in the past few years had met only very moderate reaction from tenants. Majority of the tenants had no difficulty in paying the new rents. In the past three years, very few households have applied for transfer to cheaper accommodation because of rent increases.

### **Rates for Domestic Properties in Housing Estates**

#### **(A) Present Situation**

2.15 The Housing Authority collects rates on behalf of the Government by charging tenants rents inclusive of rates. These rates are based on the block' assessments provided by the Rating and Valuation Department and are apportioned according to the rent of each flat. Any increase in rates between rent reviews due to either general revaluation or increase in percentage charge on the rateable value is not passed onto the tenants until the next review when the increase will be included in the revised rents.

2.16 Public housing tenants are notified of block assessments by means of notices put up on estate notice boards. Any revision in rateable value or percentage charge on rateable value are also made known to them. They may within the month of March each year approach the Rating and Valuation Department regarding queries on the rateable value, or for advice concerning their rights under the Rating Ordinance Cap. 116. Individual assessments are, however, not

provided to tenants who will have knowledge of their contribution towards rates only at the time of rent reviews.

## **(B) Important Developments**

2.17 The following are important developments regarding the element of rates in the current domestic rent policy -

### **(i) Views of the 1986 - Domestic Rent Policy Review Committee**

2.18 As a result of the discussion in the 1986 Domestic Rent Policy Review Committee set up by the Housing Authority, the proposals for the granting of an allowance to the Authority for the apportionment and collection of rates as well as the provision of separate assessments were referred to the Commissioner of Rating and Valuation for consideration. The proposals met with negative response from the Commissioner for the following reasons -

#### **(a) Granting of an allowance to the Authority - for the apportionment and collection of rates**

2.19 Under the Rating Ordinance, the landlord is responsible for the payment of rates. Since the collection cost is minimal and the Government provides certain services to the Authority at low or nominal costs, no justification is envisaged for any discount.

#### **(b) Provision of separate assessment for domestic units**

2.20 Under the Authority's rent policy, global rent, inclusive of rates, is charged for a particular type of flat throughout an estate, irrespective of its location and orientations etc. If separate assessments for individual flats were to be introduced, the rateable values would have to reflect the relative advantages and disadvantages of each flat. Hence, flats of the same type and rent level would have different rateable values. This would also result in the following anomalies -

- The Director of Housing would continue to be named as the ratepayer of the premises even if the premises were separately assessed because of the dual liability of the owner and the occupier for rates payment. For administrative reasons, the Authority would very likely continue its present practice of collecting rates in the form of uniform rent to avoid the collection of odd cents;
- there would be public pressure to vary the rates in line with the variable rateable values, leading to serious implications on the rent policy;
- should the Authority continue to collect uniform rents, tenants of the flats with lowest rateable value would immediately notice that they were paying the highest net rent;
- a ratepayer who obtains a reduction in the apportioned rateable value of his flat would also expect a reduction in rent. However, under the Authority's uniform rent policy, this would not be practicable. Therefore, there would be no real benefit for the tenant in having the right of objection or appeal; and
- the level of rates would change if there was a variation in rating percentage charge or general revaluation. In view of the different rateable values and the uniform rent charged, it would be difficult to explain any such changes.

2.21 In the light of these views, the then Management Committee of the Housing Authority endorsed at its meeting on 2 April 1987 that the prevailing policy should continue. It was also agreed that there were no justifications for the payment of an allowance to the Authority for the apportionment and collection of rates, and for the provision of separate assessment of Housing Authority domestic properties to rates.

### **(ii) The 1988 General Revaluation**

2.22 Following the territory-wide General Revaluation on 1 April 1988, the total new rateable value of the Authority's domestic properties was calculated to be \$8,741 M as against the old one at \$8,670M per annum. This represents a rise



of about 0.8%. Of the 1, 103 block assessments at that time, 57.1 % had increase in rateable value, 41.4% had decrease while 1.5% remained unchanged. The rates percentage charge was maintained at 6% of the new rateable value of the properties.

### **(C) Recouping Rates from Domestic Tenants**

#### **(i) Present Situation**

2.23 Increase in rates between rent reviews will not be automatically passed onto the tenants but will only be recovered retrospectively from them over a period of 24 months at the next review. Although rates are recouped later, the interest element it however not taken into account in recouping.

2.24 In addition to recouped-rates, the domestic rent increase also takes into account the rise in rateable values or rates charges between the two rent review exercises. The rent increase therefore composes the elements of rates increase, re-couped rates and net rent increase.

#### **(ii) Financial Loss**

2.25 In the past, the Authority experienced substantial financial loss incurred as a result of absorbed rates, in particular the 1984 General Revaluation and the lifting of the Rates Relief Scheme in 1987. During the period 1984/85 to 1988/89, the extent of rates absorbed by the Authority and the interest loss due to re-couped rates are as follows:

	<b>Rates Absorbed by HA</b>	<b>Interest Loss (Note 3)</b>
	<b>\$M</b>	<b>\$M</b>
1984/85	27.6	1.38
1985/86	36.6	1.83
1986/87	52.6	2.63
1987/88	64.8	3.24
1988/89	32	1.60

## **(II) COMMITTEE'S VIEW ON DOMESTIC RENT POLICY**

2.26 The Committee has thoroughly considered the current domestic rent policy. Apart from the following three areas which the Committee has singled out for study, the Committee does not recommend any change to other aspects of the existing policy -

- (A) operation of the biennial rent review;
- (B) MRIR; and
- (C) rates.

### **(A) OPERATION OF BIENNIAL RENT REVIEWS**

2.27 There is concern that the existing arrangements of reviewing domestic rent in five exercises within a cycle of two years gives rise to the impression that rent increase takes place frequently. The Committee has considered the following options -

#### **(i) Option I : Conducting Rent Review Of All Domestic Units At One Go**

2.28 This proposal creates a better public image of the Authority in not having too frequent rent review exercises. However, its disadvantages are -

- (a) politically, it will be difficult to monitor the situation in case of rent strike as the exercise involves nearly half the population of Hong Kong;
- (b) at the start, the date of review will have to be streamlined. During the transition period, certain categories of tenants will probably be given the benefit of delayed rent increase after expiry of the 2-year period. This may arouse dissatisfaction of those who are unable to enjoy the same benefit;
- (c) administratively, staff deployment will be more difficult as the workload will concentrate heavily at a particular point in time. It is projected that there will be 1 58 estates by 1994/95. This is about 3 times the maximum number of estates involved in any single current rent exercise. Furthermore, the ever increasing number of estates will add additional burden; and
- (d) in practice, rents of new blocks will only be first reviewed when the building is substantially occupied (70%) for two years. For this reason, the review may be conducted three years after completion of block. Should there be only one rent review exercise every two years, there is the possibility of further deferring the review, resulting in financial loss.

**(ii) Option II: Separate Rent Reviews For Urban, Sub-urban And New Territories Areas**

2.29 Under this option, estates will be divided according to areas, namely urban, sub-urban and New Territories. Every rent review exercise will have a mix of all types of estates instead of the present grouping by type.

2.30 The advantages of this proposal are that each exercise will be district-based and any problem encountered can be localised. However, it has the following disadvantages -

- (a) the date of review of each of the three groups of estates will have to be streamlined, presumably with a different date accorded to each group. Hence, the rent increase of certain categories of tenancies would have to be deferred after expiry of the 2-year period, giving rise to differential treatments which might lead to dissatisfaction;
- (b) since rent reviews for estates in a particular area or district will only be conducted every two years, there is also the possibility of reviewing a block in the fourth year after completion, resulting in financial loss;
- (c) there is uneven distribution of workload as the 'urban' exercise will be of a much larger scale, involving more than 100 estates; and
- (d) three rent review exercises will still be conducted every two years and this may not lead to much improvement in terms of public relations.

**(iii) Option III: Former Housing Authority Estates To Form One Group While The Rest To Remain Unchanged**

2.31 Under this option, the existing practice will be slightly modified by grouping the nine Former Housing Authority estates into one batch for review in April. Review of the Post-1973 estates will continue to be carded out in two exercises in view of the more heavy workload involved and the yearly addition of 35,000 new flats. The Group B and Former Government Low Cost Housing estates will eventually be phased out due to redevelopment by 2001. By then, there will be three rent review exercises in a cycle of two years. The advantage of this option is that it reduces the number of rent reviews. However, since its implementation entails freezing the rent review of a number of Former Housing Authority estates, it will result in financial loss for the Authority.

**(iv) Option IV : To Maintain The Status Quo**

2.32 This option means that the current practice of reviewing all domestic units in five exercises in a cycle of two years

remains unchanged. Its advantage is that it is well accepted by public housing tenants. Besides, the workload of the Department will be more evenly distributed.

2.33 By 2001, all the Group B and Former Government Low Cost Housing estates would have been demolished under the Comprehensive Redevelopment Programme. As such, only four rent review exercises in a cycle of two years will remain in ten years' time.

### **Recommendation**

2.34 After weighing the relative advantages and disadvantages, the Committee recommends that option (IV), i.e. maintaining the status quo, be adopted. The wrong impression generated by this option that rent reviews take place frequently can be rectified, if necessary, by publicity measures explaining the actual operation of the biennial rent reviews.

### **(B) RATES**

2.35 The Committee notes that the general rates percentage has increased from 6% to 7.5% with effect from 1 April 1990. This represents a rise of 25%. As a result of this change, the total rates payable by the Authority for the domestic properties is estimated to rise from about \$615.6 million in 1989/90 to \$769.5 million in 1990/91, representing an increase of \$153.9 million per annum in expenditure. Furthermore, the percentage of rates to rent collectable from domestic properties will be increased from about 17.3% to 21.6% as shown in Appendix E.

#### General Revaluation

2.36 A territory-wide General Revaluation to revise all rateable values with effect from 1 April 1991 is currently underway. It is anticipated that rateable values will increase substantially in line with rental movements since the last revaluation. However, the effect of the revaluation on rates payable cannot be ascertained until the revised rateable values, rates percentage charge, and the amount of rates relief (if any) have been determined.

#### Assessment

2.37 The Committee thinks that these trends augur that rates will become an increasing burden on the Authority's finances. However, the exact effect of increase in rates cannot be ascertained until the details of the 1991 General Revaluation are known. In view of this, the Committee does not deem it appropriate to examine the issue in the present review. It however recommends that when the domestic rent policy is next reviewed, it should be considered whether rents inclusive of rates should continue to be charged, bearing in mind that the increase in rates constitutes a burden on the financial position of the Authority.

### **(C) MRIR**

2.38 In view of tenants' general preference for more spacious allocation, the Committee considers it necessary to review whether 1.5% MRIR should continue to be the guideline for rent setting and rent review. Details regarding the Committee's deliberations on this point are set out in Chapter 3.

## **CHAPTER 3**

### **ALLOCATION STANDARD AND RENT - INCOME RATIO**

#### **BACKGROUND**

3.1 In the past ten years, the allocation standards for public housing has been twice relaxed to cope with the growing aspiration of housing applicants for more spacious accommodation and the increasing demand for small flats to

rehouse one and two person households.

3.2 In July 1982, the previous minimum space standard of 4m<sup>2</sup> per person IFA was relaxed to 5m<sup>2</sup>per person IFA. Based on this standard, the Authority endorsed in November 1986 the recommendations of its Domestic Rent Policy Review Committee to set the MRIR at 15% (paragraph 2.4).

3.3 In the following year in September 1987, the then Management Committee decided to raise the minimum space standard by 10% to the level of 5.5m<sup>2</sup> per person IFA. This 5.5m<sup>2</sup>per person IFA is the minimum space that should be allocated to prospective tenants. Actual allocation is governed by a set of standards which stipulate the number of persons to be allocated to each flat type and size. The current allocation standards are at Appendix F.

### **ACTUAL SPACE ALLOCATION**

3.4 The actual space allocation has exceeded the minimum space standard. The median space allocation has been raised to 7.7m<sup>2</sup> per person IFA in 1988/89, compared with the level of 6.8m<sup>2</sup>, 7m<sup>2</sup> and 7.5m<sup>2</sup> per person IFA for 1985/86, 1986/87 and 1987/88 respectively.

### **REASONS FOR LARGER ACTUAL SPACE ALLOCATION**

3.5 The fact that actual space allocation has exceeded the minimum space standard can be explained by two reasons. Firstly, tenants generally aspire towards larger flats. Experience in actual flat allocations shows that most applicants, including the lower income households, prefer the largest flat size they are eligible for with full understanding that they would have to pay more. Records reveal that during the period April 1988 to September 1989, 95% of the lower income applicants have indicated such preference to pay higher rent for larger units.

3.6 During the same period, among the total 22,448 refusal cases of housing offer, only 451 cases (i.e., 2.01 %), most of whom were from clearance and redevelopment categories accustomed to paying very cheap rents, indicated their preference for lower rental units.

3.7 Secondly, one and two person households are given more space per person in comparison with larger households because one and two person households likewise require self-contained toilet and kitchen facilities.

### **Rent-Income Ratio**

3.8 In pace with the steady increase in actual space allocation, the overall MRIR upon intake has also increased over the period: from 11.8% in 1985/86 and 13.3% in 1986/87 to 14.3% in 1987/88 and 14.3% in 1988/89. In fact, as shown in the table below, the MRIR of several rehousing categories in 1988/89, including "compassionate", "redevelopment" and "Waiting List", is already above 15% and that for "re-use of THA" is just below 15%.

#### **1988/89 Median Rent-Income Ratio Upon Intake Analysed by Rehousing Category**

<b>Rehousing Category</b>	<b>MRIR (%)</b>
Emergency	11.1
Compassionate	23.5
Clearance	11.8
Redevelopment	15.4
Waiting List Applicants	15.2
Re-use of THA	14.7
Management Transfers & External Transfers	11.5

Junior Civil Servants & Pensioners	9.7
Overall	14.3

3.9 The following table also shows that the larger space enjoyed by tenants, the higher the MRIR -

### **MRIR Upon Intake of Households Rehoused in 1988/89**

#### **Analysed by Range of Space Allocation**

Space Per Person (m2 IFA)	% of Households	MRIR %
Below 6.5	9.5	12.4
6.5 and above	90.5	14.5
Overall	100	14.3

3.10 The 9.5% households in the table in paragraph 3.9 are those who, either out of choice or forced by circumstances, chose the minimum allocation standard of 5.5m<sup>2</sup> per person IFA. The actual space allocated to these households is about 6.5m<sup>2</sup> per person IFA.

3.11 The tables in paragraphs 3.8 and 3.9 show that given the increasingly large space allocation, it has become increasingly difficult for the Department to keep the MRIR below 15%. If larger space is given, the MRIR will inevitably exceed 15%.

### **Decreasing Rent-Income Ratio After Intake**

3.12 Although the MRIR of households upon intake is approaching 15%, the MRIR would tend to decrease after the households have been accommodated in public housing for some time. According to the findings of the Survey on Rent Affordability and Other Household Characteristics of Households Rehoused in New Rental Estates during November 1987 to May 1989 conducted in June/July 1989, the MRIR of tenants experienced a significant decrease after intake -

	MRIR (%) of Tenants Rehoused
	During November 1987 to May 1989
At the time of Intake (Nov. 1987 to May 1989)	14.4
At the time of Survey (June/July 1989)	11.6

3.13 This decrease in MRIR can be attributed to the fact that household income of tenants increased more quickly than rent after intake, as demonstrated in the following table -

	Median Household Income (\$)	% Increase	Median Rent	% Increase

<b>At the time of Intake (Nov. 1987 to May 1989)</b>	4792		\$690	
<b>At the time of Survey (June/July 1989)</b>	6000	25.2	\$690	0

3.14 The decrease in MRIR is greater for households who have lived in public housing for longer period of time. According to the Survey on Income Growth, Rent-income Ratio and Other Household Characteristics of Public Housing Tenants Rehoused in 1982/83, 1977/78 and 1972/73 which was conducted during November/December 1987 and January/February 1988, the decrease in MRIR is larger the longer the tenants have lived in public housing, as shown below -

Year of Intake	MRIR (%)	
	At Time of Intake	At Survey (Nov/Dec 1987 - Jan/Feb 1988)
1972/73	11.7	5.1
1977/78	15.4	8.0
1982/83	10.5	9.2

## CHAPTER 4

### PROPOSALS FOR ALLOCATION STANDARD AND MEDIAN RENT-INCOME RATIO

#### NEED FOR MORE SPACIOUS ALLOCATION

4.1 The Committee is aware that due to the following reasons, more spacious allocation to public housing tenants is required -

##### (I) Room for Future Growth

4.2 At present, some 45% of the households are occupying flats at a density of less than 5.5m<sup>2</sup> per person IFA. Of these, 7.9%, or 40,329 households are living under 4m<sup>2</sup> per person IFA. These families can apply for relief of overcrowding through voluntary transfer exercise. It is also expected that the number of these households will be reduced gradually under the Comprehensive Redevelopment Programme.

4.3 To reduce the likelihood of overcrowding in future, larger space allocation will have to be given to households with potential for expansion in size through marriage or birth.

##### (II) Requirement for Flats for One and Two Person Households

4.4 One and two person households require more: ore space per person than three person and above households because the former also require self-contained kitchen and toilet facilities. In this connection, it is useful to note that, in view of the general shortage of small flats for one and two person households, any step towards upward adjustment of the minimum allocation standard will enable more flats to be available for allocation to one and two person households. This subject is discussed in greater detail in paragraph 4.21 below.

##### (III) Tenants' Aspiration for More Space

4.5 The details for this reason have been set out in paragraphs 3.5 and 3.6.

## **HARMONY BLOCK**

4.6 The Harmony block was designed to meet the requirement for more spacious allocation and better living environment. The first Harmony block will be introduced in 1992/93. It is apparent that the current range of designs, although excellent solutions for today's requirements, would not completely answer the demands of the 1990s. The needs of tenants are changing : families are getting smaller, standards are improving and the aspiration of residents are rising. More applicants for public housing opt for larger accommodation. In response to such changes, the Housing Authority has approved to proceed with the new 'Harmony' series of rental blocks.

4.7 The new 'Harmony' series has improved amenities with larger living and service areas. There is, in general, an increase in the overall flat sizes. Kitchens are larger, and in the three-bedroom flat unit the bathroom and toilet are separate. Public areas and the corridor access have also been upgraded with improved security gate designs and finishes. There will also be improvements in estate environment and facilities. To meet the needs of the 1990s, by and large the majority of the blocks to be built in future will be Harmony blocks.

### **Flat Types in Harmony Block**

4.8 The Harmony block designs allow flexibility in flat mix to cater for need. The following type of flats can be produced (**Note 4**) :

One person flat	- IFA 11.5m <sup>2</sup>
Small flat	- IFA 16.2 - 17m <sup>2</sup>
One-bedroom flat	- IFA 34.5m <sup>2</sup>
Two-bedroom flat	- IFA 43.4m <sup>2</sup>
Three-bedroom flat	- IFA 49.1- 52.3m <sup>2</sup>

The lay-out of these flats designs are at **Appendices G-K** respectively.

## **PARAMETERS FOR CONSIDERATION**

4.9 In the light of the reasons set out in paragraphs 4.1 to 4.5 above, it is apparent that there is a need to adjust the minimum allocation standard upward so that -

- (a) it meets the demand and requirements for more spacious allocation; and
- (b) it is more reflective of the actual picture regarding space allocation.

4.10 However, the proposal to increase the minimum space allocation standard has to be considered within the following parameters -

- (a) due to the general shortage of land for public housing, there is a limit within which the minimum space standard can be improved so that the improvement itself will not jeopardise the efficient use of land resources;
- (b) as noted in paragraph 3.11, any upward adjustment will bring about an increase in the MRIR. It is neither desirable nor appropriate to increase the minimum allocation standard without setting a corresponding level of MRIR which cannot be exceeded. To do so would in theory enable the Authority to increase rent for public rental estates with no regard to tenants' affordability; and
- (c) the proposal to increase the minimum allocation standard should not lose sight of the needs of tenants who wish to

be accommodated in smaller space either out of personal preference or due to inability to pay higher rent. As noted in paragraph 3.10, during the year 1988/89, 9.5% of the tenants opted for the minimum allocation standard.

## THE PROPOSAL

4.11 With the above parameters in mind, **the Committee had carried out an exercise to test the different possible sets of revised standards regarding minimum allocation and the corresponding MRIR. The Committee has come to the conclusion that a choice between the existing standard and a new allocation standard at 7m<sup>2</sup> per person IFA with the corresponding MRIR not exceeding 15% and 18.5% respectively would meet the considerations outlined in paragraph 4.10(a) to (c) above. Accordingly, the Committee proposes that in future, public housing tenants should be offered a choice between the current standard and a new standard when they move into public housing. For tenants who prefer more spacious allocation, they can choose to live at the minimum allocation standard of 7m<sup>2</sup> per person IFA with the MRIR not exceeding 18.5%. For tenants who prefer to be accommodated at a lower space standard, they can choose to live at the current minimum standard of 5.5m<sup>2</sup> per person IFA with the MRIR not exceeding 15%. (Note 5)**

The table at **Appendix L** shows the initial estimated standards and the recommended standards.

4.12 The Committee considers that this proposed increase in the minimum allocation standard, and correspondingly of the MRIR, would be able to **meet the requirement for more space while at the same time ensuring that the rent set would remain affordable by prospective tenants.** As explained in paragraphs 3.12 to 3.14, even if the MRIR upon intake were to reach 18.5%, past experience indicates that it would progressively decrease as the tenants live longer in public housing.

### Allocation Pattern under New Proposed Standard

4.13 The proposed new standard of 7m<sup>2</sup> per person IFA with MRIR not exceeding 18.5% represents an increase in space by 27% and MRIR by 23% over the existing standard. According to this proposed standard, the allocation pattern in the Harmony block will be as follows -

Flat Type	Proposed Allocation Range	Proposed Range of Space Per Person in m <sup>2</sup> IFA
Converted One Person Unit(11.5M <sup>2</sup> )	1 person	11.5
Small Flat (16.2 - 17m <sup>2</sup> )	1-2 persons	8.1 - 17.0
One Bedroom (34.5m <sup>2</sup> )	*2-5 persons	6.9 - 17.3
Two Bedroom (43.4m <sup>2</sup> )	4-6 persons	7.2 - 10.9
Three Bedroom (49.1 - 52.3m <sup>2</sup> )	6 persons and above	<8.2 - <8.7

\*In the case of allocation of one-bedroom flats to two-person households, this will be done primarily for young couples with the prospect of expanding household size.

4.14 The proposed allocation pattern in Former Housing Authority and New Housing Authority estates will be as follows -

Size of Flats	Proposed allocation Range	Proposed Range of space Per Person in m <sup>2</sup> IFA
10.8 - 17.0	1	10.8 - 17.0



17.4 - 21.9	2	8.7 - 11.0
22.0 - 34.7	2-3	7.3 - 17.4
35.1 - 38.2	3-5	7.0 - 12.7
39.4 - 43.8	4-5	7.9 - 11.0
44.0 - 55.8	5-6	7.3 - 11.2
57.1 - 61.5	7-8	7.1 - 8.8

4.15 The proposed allocation pattern for Group B and Former Government Low Cost Housing estates will be as follows -

<b>Size of Flats</b>	<b>Proposed Allocation Range</b>	<b>Proposed Range of Space Per Person in m<sup>2</sup> IFA</b>
7.8 - 19.8	1	7.8 - 19.8
20.5 - 24.2	2	10.3 - 12.1
25.0 - 34.7	2-3	8.3 - 17.4
36.3 - 39.7	3-4	9.1 - 13.2
40.2 - 57.6	4-5	8.0 - 14.4

### **Assumptions Behind Proposed New Standard**

4.16 The proposed new standard carries a number of assumptions. The first assumption is that the unit rent for the Harmony block is the same as the existing rent for the best current block types. This assumption is made to facilitate calculation. The Committee however notes that the costs of constructing Harmony blocks will be higher than those of the current Trident and Linear blocks.

4.17 The second assumption is that the current rent fixing policy will remain unchanged and that there will be no real increase in unit rent in 1988/89 - 1992/93. While there is no intention to pre-empt the Authority's decision on whether the current domestic rent policy should be changed, the Committee certainly does not recommend modification in any aspect, other than that tenants in future should be offered the choice between the existing allocation and MRIR standards and the proposed standard of the maximum MRIR being set at 18.5% at the allocation standard of 7m<sup>2</sup> per person IFA. In the past few years, rent reviews have resulted in increases which were largely inflation-related. The second assumption is therefore considered to be largely valid.

4.18 The third assumption is that there will be no real increase or decrease in tenants' income. This assumption has to be made for the purpose of calculation. If the past trend is anything to go by, there has been around 3% - 6% real increase in income over the past four years. If this trend is to continue, the assumption will work in favour of the tenants. In this connection, it is useful to note that as mentioned in paragraphs 3.12 to 3.14, tenants' income increases more quickly than rent after they have moved into public housing. As a result, there is a progressive decrease in their MRIR in the years they live in public rental housing.

## **Implications of the Proposals**

### **(I) Tenants' Aspiration for More Space**

4.19 As noted in paragraph 3.5 above, some 95% of the lower income households have in the past requested to pay higher rents for larger flats, indicating that they prefer to pay more for larger accommodation. The new allocation standards will certainly help to satisfy tenants' desire for more space.

### **(II) Room for Future Growth**

4.20 Larger living space will allow future expansion in household size, particularly in the cases of one person and two person households, through marriage and birth etc. This also has a long-term effect in preventing overcrowding as previously experienced in the older estates.

### **(III) Additional Housing Units for Small Households**

4.21 The proposed relaxation of allocation standards will make it possible for flats up to 34.5m<sup>2</sup> IFA to be allocated to two person households consisting of young couples. This relaxation will also increase the supply of casual vacancies to ease the growing demand for small units.

4.22 The Committee notes that the demand for one-person and two-person flats for the coming three years is around 9,000 to 9,500 units annually. Broadly speaking, half of the demand will be met by new housing stocks and the other half by casual vacancies. The Committee considers that the supply of small flats in future Harmony blocks should be adjusted with flexibility in the light of demand, taking into account the number of casual vacancies suitable for allocation to small households.

### **(IV) Occupancy Density**

4.23 On the basis of proposed new standard, the median occupation density is envisaged to be -

#### **(A) For one person and two person flats**

12.7m<sup>2</sup> per person IFA for casual vacancies in older blocks and 13.8m<sup>2</sup> per person IFA for new estates.

#### **(B) For three person and above flats**

10.9m<sup>2</sup> per person IFA for casual vacancies in older blocks and 9.1m<sup>2</sup> per person IFA for new estates.

### **(V) Choice of Option For Tenants**

4.24 According to the proposal, prospective tenants have the following options in choosing the type of flat at the allocation and MRIR standards appropriate to their circumstances -

(A) to live in casual vacancies in the old estates at the proposed new allocation standard; or

(B) to live in casual vacancies in the old estates at the existing allocation standard; or

(C) to live in future new models of public housing blocks (which will predominantly be Harmony blocks) at the proposed new allocation standard; or

(D) to live in future new models of public housing blocks (which will predominantly be Harmony blocks) at the existing standard.

4.25 Tenants who choose option (D) above will be accommodated at a tighter allocation range than that proposed in paragraph 4.13 above. However, the allocation range set out in paragraph 4.13 is the most appropriate as far as the design of the Harmony block is concerned. In view of this and the fact that the general aspiration of tenants is towards

more spacious allocation, it is not envisaged that too many tenants will be interested in this option. Nevertheless, should tenants choose this option, such requests will be considered by the Department in the light of the tenants' circumstances and the availability of units. Options (A) to (D) allow tenants flexibility in choosing the type of flats appropriate to their preference and affordability.

## **(VI) Financial Position of the Authority**

4.26 The proposal will have minimal effect on the financial position of the Authority. As mentioned at paragraph 1.12 above, the Authority is likely to go through a period of very stringent financial restraint in the early nineties. The progressive introduction of superior quality flats of the Harmony blocks will, no doubt, boost the rental income in the domestic account. However, this will not have a significant impact on the Authority's overall cash flows when viewed in terms of the funds required to finance public rental housing construction and renovation programmes.

## **POSITION OF ONE AND TWO PERSON HOUSEHOLDS**

4.27 The Committee is concerned about the special situation of one and two person households. Since the number of income-earners is normally smaller in this type of households than bigger-sized households, their rent-income ratio may be higher than other households.

### **Assessment**

4.28 Upon detailed examination, the Committee finds the MRIR of one and two person households is 10.4% and 12.9% respectively for the year 1988/89. Under the new proposed standard, the estimated MRIR for one person household in Harmony blocks is 13.3% while that for two person households is 11.8% as shown in the table below. As such, the MRIR of one person and two person household is well below the proposed 18.5% MRIR standard and does not exceed even the 15% under the existing standard. The existing and the proposed new standards together offer one person and two person households a wide choice of flat types in the Harmony block. A one person household in Harmony block can choose to live in either converted one person flat or small flat while a two person household can choose to live in small flat or one bedroom flat. The Committee believes that this offers one and two person households sufficient flexibility in choosing the types of flat appropriate to their needs and affordability.

<b>Estimated MRIR for 1-person and 2-person Households in Harmony Block (as at May 1990)</b>						
Household Size	Median Income (\$)	Space Entitlement (m <sup>2</sup> )	Flat Type Allocated	Space Allocated (m <sup>2</sup> IFA)	Rent (\$)	MRIR (%)
1	2,400	7	1P	11.5	320	13.3
2	3791	14	small flat	16.2-17.0	447	11.8

## **CHAPTER 5**

### **HOUSING SUBSIDY POLICY AND HOUSEHOLDS IN HARDSHIP**

#### **HOUSING SUBSIDY POLICY**

5.1 The Committee notes that paragraph 34 of the Report of the Committee on Housing Subsidy to Tenants of Public Housing dated September 1986 states that-

"The Committee unanimously agrees that the proposed measures to reduce housing subsidies should be reviewed periodically so that changes may be made with reference to the then prevailing social and economic situations. The

Committee is also aware that these measures are part of the broader domestic rent policy, and further suggests that the Authority should appoint a Committee, as and when necessary, to review the proposals put forward by both the Committee on Housing Subsidy and the Domestic Rent Policy Review Committee, when these proposals are adopted as approved policies."

## BACKGROUND

5.2 In April 1987, the Housing Subsidy Policy was introduced. Its objective is to reduce subsidy to those public housing tenants who are no longer in need. Under this policy, tenants who have been living in public housing for ten years or more and whose household income exceeds the Subsidy Income Limit (which is twice the Waiting List Income Limit) are required to pay double net rent plus rates. Households paying the double rent may apply to pay the existing rent if their income subsequently falls below the Subsidy Income Limit for a sustained period of six months. For cases in which the household income drops below the Waiting List Income Limit, the tenants may apply immediately to pay the existing rent. Households which continue to pay the existing rent after the first ten years of residence are required to declare their income once every two years through the biennial household income review.

5.3 The Housing Subsidy Policy has been implemented in phases since April 1987, with tenants starting to pay the double rent in April 1988. On 1 April 1990, the policy entered its fourth year of implementation. Progress of implementation has been smooth.

## COMMITTEE'S VIEWS

5.4 The Committee is of the view that while the domestic rent policy applies to all the public housing tenants, the Housing Subsidy Policy only applies to the specific group of tenants who have lived in public housing for ten years or more and whose household income exceeds the Subsidy Income Limit. It is therefore not of general applicability.

5.5 Besides, the Committee considers that the Policy has not yet been implemented to a stage at which its effects can be fully felt. It would be necessary to observe further the effect of double rent payment arising from the biennial income review. **The Committee recommends that the Authority should review the Housing Subsidy Policy sometime in 1991 so that the review can cover the effect of double rent payment by those affected by the fourth year of implementation as well as those due for biennial household income review in 1990.**

## HOUSEHOLDS IN HARDSHIP

5.6 Under the current social welfare policy, persons in financial hardship can apply for public assistance. In the case of public housing tenants who are recipients of public assistance, they are given assistance in paying their rent as well.

5.7 However, there are tenants who are not eligible for public assistance but who may find that their income is not sufficient to meet the basic costs of living after paying for rent. For this kind of households in hardship, the Department's policy is to transfer them to flats of lower rent.

5.8 Since this question is one about subsidy to public housing tenants rather than domestic rent policy, the Committee does not consider it appropriate for it to examine the issue in detail. **It however recommends that the Authority should examine this question about public rental housing tenants in financial hardship when reviewing the Housing Subsidy Policy.**

## CHAPTER 6

### IMPLEMENTATION OF PROPOSALS

6.1 The Committee does not consider it appropriate to apply the proposed standards regarding allocation and MRIR to tenants who are already accommodated in current public housing. It would be unfair to suggest that tenants who were

allocated their flats according to the current standards should be required to pay rent at a MRIR of 18.5%. **Accordingly, the proposal should only apply to future tenants of public housing. It will not affect existing tenants in current rental blocks, other than those who will be covered in the various transfer schemes in future.** The proposed new standards, if approved, could apply to virtually all types of public rental housing including Trident and Linear blocks. The rental blocks to be completed in 1990/91 and 1991/92 will be Trident, Linear, and New Slab blocks. Thereafter, the majority of blocks to be constructed will be the Harmony series. A table showing the programme of blocks to be completed in 1990/91 to 1994/95 is at **Appendix M**. The Committee notes that at present, there are a substantial number of available flats in the New Territories, in particular in Fanling and Tuen Mun. This can be attributed to a certain extent to the unpopularity of the location of the estates there. If the allocation standard is relaxed according to the new proposed standards, it will be possible for the vacant flats to be allocated to smaller households, hence reducing the number of vacancies in such estates and at the same time meeting the demand for flats for small households. **The Committee therefore proposes that if the Committee's proposal is accepted, it should be implemented as soon as practicable on a gradual basis to Trident and Linear blocks according to district characteristics. The Committee also recommends that the proposed standards should apply with immediate effect to the Harmony block upon its introduction.**

## CHAPTER 7

### CONCLUSION

7.1 There is increasing need to improve the space allocation to tenants of public rental housing. The introduction of Harmony blocks with flats of larger size is in response to this need.

7.2 The Committee considers it necessary to adjust the minimum allocation standard which will naturally entail changes in the MRIR. This will however have to be balanced against considerations such as efficient use of land resources and interests of tenants who may not wish to have or are unable to afford flats of larger sizes. It is therefore important to offer prospective tenants a choice between the existing and proposed relaxed standards. The Committee believes that this will offer prospective tenants maximum flexibility to choose flats to suit their own preference and affordability. The proposed relaxed standards will moreover have positive effect on the Authority's financial position as well as availability of units for one and two person households.

7.3 If approved, the proposed new standard should be implemented as soon as practicable on a gradual basis to new Trident and Linear blocks according to district characteristics. It should apply with immediate effect to Harmony block upon its introduction.

### SUMMARY OF RECOMMENDATIONS

The recommendations of the Ad Hoc Committee to Review Domestic Rent Policy and Allocation Standards are -

#### (a) Biennial Rent Reviews

The Committee is aware that the existing arrangement whereby domestic rent is reviewed in five exercises within a cycle of two years gives rise to the impression that rent increase takes place frequently. However, after examining a number of options on ways to streamline the rent reviews, the Committee recommends that the current practice should remain unchanged because it is already well accepted by the public. Moreover, the current practice allows the workload of the Housing Department in administering the rent reviews to be more evenly distributed.

#### (b) Rates

The Committee notes that the General Rates Percentage has been increased in April 1990. In addition, a territory-wide General Revaluation took effect in April 1991 to revise all rateable values. The Committee thinks that these trends augur that rates will become an increasing burden on the Authority's finances. The Committee recommends that when the domestic rent policy is next reviewed, it should be considered whether rents inclusive of rates should continue to be charged, bearing in mind that the increase in rates constitutes a burden on the finances of the Authority.

### **(c) Median Rent-income Ratio and Allocation Standards**

In order to meet the demand for more spacious allocation, the Committee proposes that in future, public housing tenants should be offered a choice between the current standard and a new standard when they move into public housing. For tenants who prefer more spacious allocation, they can choose to live at the minimum allocation standard of 7m<sup>2</sup> per person Internal Floor Area with the median rent-income ratio not exceeding 18.5%. For tenants who prefer to be accommodated at a lower space standard, they can choose to live at the current minimum standard of 5.5m<sup>2</sup> per person Internal Floor Area with the median rent-income ratio not exceeding 15%. This proposal should only apply to future tenants of public housing, other than those who will be covered in the various transfer schemes in future. The Committee recommends that if approved, the proposed standard should be implemented as soon as practicable on a gradual basis to Trident and Linear blocks according to district characteristics. It should apply with immediate effect to the Harmony block upon its introduction.

### **(d) Housing Subsidy Policy**

The Committee recommends that the Authority should review the Housing Subsidy Policy sometime in 1991 so that the review can cover the effect of double rent payment by those affected by the fourth year of implementation as well as those due for biennial household income review in 1990. The Authority should also examine the question of household in public rental housing who are not eligible for public assistance but who find that their income is not sufficient to meet the basic costs of living after paying for rent.

### **NOTES**

Note 1 Rent-income ratio is the expression of rent as a percentage of income. Median rent- income ratio means that 50% of the households having the rent to household income proportion below that value and the other 50% above it.

Note 2 Internal Floor Area (IFA) refers to the total floor area of its enclosed space, including all living and service areas such as kitchen, balcony and toilet.

Note 3 : By assuming that the absorption of rates by the Housing Authority leads to an equal amount of additional capital requirement evenly over the year at 5% interest rates per annum, i.e. the interest rate on permanent Government capital.

Note 4: It should be noted that the Management and Operations Committee has approved the conversion of one-bedroom flats into smaller units of 11.5m<sup>2</sup> IFA for one-person households with shared kitchen and toilet facilities to meet short term commitment and the allocation of the small flats to one to two-person households.

Note 5 : The proposed MRIR of 18.5% was derived by applying the recommended minimum space standard of 7 m<sup>2</sup> per person to the new Harmony block flat layouts, with current rent-fixing policy remaining unchanged.

## **Appendix A**

### **Ad Hoc Committee to Review Domestic Rent Policy and Allocation Standards Report on Public Consultation (December 1989 - February 1990)**

#### **Rent**

1. Two individuals agreed that rent should be adjusted according to factors such as the location, age and environment of the estates. One individual commented that the public should be allowed to know what the comparative value of the various estates was so that they could examine whether correct value had been assigned to an estate in rent fixing. A number of Kwun Tong District Board members considered that old and new housing estates should adopt different level of rent because the facilities and environment of these estates were different. One individual opined that rent for older housing estates should not exceed the best rent for new estates. He agreed that higher rent should be charged for

the Harmony block. Two individuals were of the view that the current rents for housing estates were too low. One considered that many public housing estates were much better than private sector housing in terms of environment, facilities and flat sizes. According to them, public housing tenants were in fact heavily subsidised and such heavy subsidy was unfair to the private sector which did not enjoy such benefits, and yet had supported the subsidy through tax. Rent for public housing should be increased to make them more comparable with that in the private sector. The Hong Kong People's Council on Public Housing Policy (HKPCPHP) however thought that Housing Authority should not compare rent of public housing with that of private sector housing because the latter was consistently at an exorbitant level. The Authority should help to curb increase in the rent of private sector housing through setting reasonable rent for public housing.

2. One Kwun Tong District Board member was of the view that the Authority should set out clearly its basic objective of the public housing programme and the sector of public to assist. If the sector was the lower income group, then the rent policy should be formulated according to the affordability of this group. A few Kwun Tong District Board members were of the view that some tenants could not afford to pay higher rent entailed by larger flats. This was evidenced by cases whereby some tenants affected by the Comprehensive Redevelopment Programme preferred to be accommodated in old estates because they could not afford the higher rent in new estates. Another Kwun Tong District Board member considered that 20% of the tenants in older estates would not be able to afford rent of the newer estates. The Authority should hence provide flats of lower rental to meet the needs of these people in addition to building high quality Harmony flat.

3. The HKPCPHP thought that in the last two reviews of domestic rent policy, the Authority's conclusion was that the main factors for consideration in rent setting were tenants' affordability and comparative estate values and that it would not be appropriate to set rent in relation to costs. The HKPCPHP considered that this already demonstrated Government's tendency to gradually pass its responsibility for providing low rent housing onto tenants and possibly to make money through the public housing programme. The HKPCPHP considered it inappropriate for the Authority to keep increasing rent in the light of its forecast surplus in 1993/94. A few Kwun Tong District Board members thought that in view of the impending slow-down in economic growth and rising inflation, the Authority should be prudent in rent setting to ensure it remained affordable to tenants.

### **Biennial Rent Review**

4. Two individuals supported biennial rent reviews. Another individual however found the biennial rent reviews too frequent and opined that rent reviews should take place every five years instead. The HKPCPHP proposed that the frequency should be once every four years in view of the impending surplus in the Authority's finance in 1993/94.

### **Policy on Housing Subsidy to Tenants of Public Housing**

5. Two individuals commented that tenants who had enjoyed many years of low rent in public housing were already quite well-off. They therefore supported that 'double rent policy'. One even suggested that increasing rent three times or four times would not constitute an undue burden on these well-off tenants. One proposed that tenants should report their household income to the Authority biennially. If their income was found to be above a specified level, they should be required to pay double rent or purchase HOS. In the same vein, another individual found the policy on housing subsidy unfair to those who were in need of public housing. This was because better-off public housing tenants, even if they were property-owners, would not be required to vacate their flats. Another individual suggested that the policy be reviewed because he doubted the effectiveness of the policy in encouraging better-off tenants to vacate their flats for those in need of subsidised housing.

6. Another view was subscribed by another individual who thought that the policy was not fair to tenants who were once poor and had become better-off only recently. He suggested another method of calculation which only doubled future increment of the rent of tenants affected by the policy. A group of public housing tenants indicated that the policy constituted a heavy burden on them. They requested the Authority to limit rent increase to the biennial rent review and scrap the policy on housing subsidy.

### **Median Rent-income Ratio (MRIR)**

7. Two individuals found the MRIR of not more than 15% too low. One suggested increasing it to 20% while the other to 25-30%. Apart from these two, all other individuals/groups who expressed a view on MRIR thought that MRIR should be kept at the not more than 15% level. The HKPCPHP, one Mutual Aid Committee, and two Shatin District Board members thought that the advent of Harmony block should not be used as an excuse to increase the MRIR. A number of Kwun Tong District Board members opined that due to rising inflation, the MRIR should be reduced to a level of not more than 10% to 12%. They thought that in fixing the MRIR, the median income of entire population of Hong Kong should be considered.

8. The HKPCPHP questioned the comprehensiveness and objectivity of the current review because they claimed that some members of the Ad Hoc Committee were already inclined towards increasing the MRIR to 18% to 20%. It indicated that if this was done, the improvement in tenants' living environment would be offset by the decrease in expenditure on other items of living. This would also encourage the private sector to follow suit and revise rent. The HKPCPHP proposed that in fixing rent for Harmony block, the Authority should no longer adhere to its conservative approach whereby the amount of rent was arrived at by multiplying area of the flat by rent per m<sup>2</sup>. It noted that Harmony flats could be classified into several types, e.g., one-bedroom, two-bedroom and three-bedroom. It suggested that the Authority should prescribe standards regarding rent and number of occupants for each flat type. Before doing so, the Authority should establish what the space allocation per occupant would be and the relevant rent-income ratio. Take for example, a flat type which was intended for a three-person household should carry a standard rent equivalent to 15% of the income of a three-person household. Such a flat type could accommodate household of other sizes, provided that these households should pay the standard rent and the space per occupant should not be less than the space standard of this particular flat type.

### **Allocation Standards**

9. An individual was pleased to note that allocation of space in public housing was getting more and more generous. Another individual thought that 7.7m<sup>2</sup>/person Internal Floor Area would be a reasonable allocation standard. According to him, the middle to lower income group among the tenants of private housing were enjoying similar space standard. If the standard for public housing became too relaxed, it could easily arouse the dissatisfaction of the private sector. The same suggestion of rising minimum allocation standard to 7.7m<sup>2</sup> was also subscribed by the Tung Tau Residents' Association. A Mutual Aid Committee considered that allocation standards should be raised to catch up with the improvement in the quality of life. The Committee thought that the standards should at least be 7.7m<sup>2</sup> per person, while the ideal level should be 10m<sup>2</sup> per person. The same view was echoed by two Shatin District Board members.

10. A number of Kwun Tong District Board members opined that in formulating minimum allocation standards, the space entailed by such basic facilities as toilet, kitchen and balcony should not be included in the calculation of Internal Floor Area.

11. The HKPCPHP opined that the current median allocation of 7.7m<sup>2</sup> Internal Floor Area per person was misleading in that this calculation included space allocated to one-person and above households. Since the space enjoyed by one-person households was naturally larger than that enjoyed by other household types, the median figure was inflated. It indicated that it was puzzled by the different bases on which allocation standards were formulated. It was suspicious that the change from net living area to Internal Floor Area was but a 'game with number' to hide the fact that space allocation did not improve much over the past few years.

12. The HKPCPHP suggested that at the start of 1990's, there should be a different space allocation of one to two-person households and three-person and above households. For the latter group of households, the minimum standard should be 7.7m<sup>2</sup> saleable area. This should be gradually increased to 10m<sup>2</sup> saleable area by the end of 1990's.

### **Rates**

13. An individual thought that rent for public housing should not be inclusive of rates. The facilities of the Urban Council and the Regional Council were enjoyed by tenants of both public and private housing. Since the latter paid



their own rates separately, the former could likewise do so. Another individual however supported that inclusive rent should be charged.

## **Financial Position**

14. The HKPCPHP indicated that since 1984/85, surplus had emerged from Group A estates. According to the HKPCPHP, the surplus could be attributed to the policy on housing subsidy and 15% MRIR. Surplus of Group A estates had been used to offset deficits of Group B estates. The HKPCPHP opined that in this way, tenants of Group A estates had shouldered the burden which should have been borne by Government. It was of the view that after implementing the policy on housing subsidy and 15% MRIR, Government was already aware that surplus would ensue. According to it, Government deliberately changed the financial arrangements with the Housing Authority afterwards to enable the Authority to become financially self-sufficient and moreover an agent for earning money for Government.

15. The HKPCPHP was of the view that tenants of Group A estates were paying more rent than their due share. It strongly urged the Housing Authority to compare, in the context of the present review of domestic rent policy and allocation standards, the new financial arrangements with the old in respect of impact on and commitment of Government, the Housing Authority and tenants. This point should also be included as part of the public consultation on the outcome of the review.

## **General Comments**

16. A number of Kwun Tong District Board members opined that the booklet on current domestic rent policy and allocation standards did not contain sufficient information. They considered the consultation period too short and publicity on the consultation inadequate. This point was echoed by the HKPCPHP. The Kwun Tong District Board members thought that the booklet should state the social objective of public housing and the financial position of the Housing Authority. According to them, the emphasis of the social objective seemed to have shifted from welfare to subsidy and then to commercial interest. They were pleased to note that the quality of public housing was improving. They urged the Housing Authority to concentrate on supplying adequate flats to meet the needs of Waiting List applicants. According to them, a certain percentage of flats in new estates in the urban area should be reserved to accommodate those tenants in urban areas who wished to move to larger units to relieve overcrowding. A few Kwun Tong District Board members suggested that questionnaires should be sent to survey tenants' views on policies on housing subsidy and domestic rent as well as allocation standards.

17. The HKPCPHP suggested that in view of the Authority's surplus, improvement should be undertaken for public housing blocks to upgrade them in line with the standard of private sector housing so that the image of "low cost housing" could be changed. It also urged that there should be full consultation before the recommendations of the Ad Hoc Committee were implemented. Members of the Ad Hoc Committee should take initiative in going to estates to listen to views of tenants.

18. On a different subject, group of public housing tenants thought that it was cruel to force elderly tenants whose children had moved out to transfer to smaller units. This would imply for the elderly tenants loss of the money spent on decoration and fitting-out of the original flat as well as the neighbourhood spirit that had been cultivated. According to the group, these elderly tenants might encounter financial difficulties as a result of the transfer.

19. One individual commented that public housing tenants should shoulder costs entailed by improving estate facilities and environment and in so doing reduce the burden on the Housing Authority and taxpayers. Government should cut down on subsidy to public housing tenants. Along the same vein, another individual proposed that public housing tenants who have acquired properties after moving into public housing should be required to give up their units to the truly needy.

20. One individual suggested installing satellite dish for Harmony block to improve the living standard of tenants. The cost for this could be recouped from rent.

21. Another individual complimented the Authority on the generous space allocation to tenants. He however pointed out that the Authority had been unnecessarily stringent in applying the income limit when assessing applications from

Waiting List applicants.

## Appendix B

### Major Recommendations of 1977 Rent Policy Steering Group

- (i) Rents of pre-1973 estates should continue to be reviewed at two yearly intervals, having regard to current expenditure and economic conditions.
- (ii) Rents of post- 1973 estates should remain unchanged but should be reviewed periodically to take account of increasing management and maintenance costs, having regard to the general level of income at the time.
- (iii) Rent levels for new estates (post- 1977) should not go out of line with the general level fixed for post- 1973 estates.
- (iv) In rent reviews, the comparative value of the estate to the tenants, reflecting such factors as location, amenities, schools, employment, transport and other local services should be taken into account to determine a fair rent level.
- (v) The Authority should provide a range of accommodation within the means of prospective tenants with particular attention to be paid to low-income households. In future estates, a certain number of low rent flats should be provided without cutting internal standards or amenities.
- (vi) The Authority should continue to bear any rates increases temporarily until the next rent review for the estates concerned when the rates increase should be taken into consideration.

## Appendix C

### Summary of Recommendations of the Domestic Rent Policy Review Committee 1986

- (i) The social objective of the public housing programme to provide subsidized housing to selected groups of people on a need basis is endorsed. The two criteria of "eligibility for public housing" and "housing need" should be constantly reviewed.
- (ii) Surplus from the Authority's domestic and non-domestic revenue, after meeting the recurrent expenses, should be spent on future construction programmes rather than on further subsidies to the existing tenants.
- (iii) The Report of the 1977 Rents Policy Steering Group, on which the existing domestic rent policy is based, is still valid and should be applied.
- (iv) When setting rents for new estates and at rent reviews, tenants' affordability as well as the comparable estate value should remain as the most important factors for consideration.
- (v) A 15% median rent-income ratio guideline should be adopted to ensure rents remain affordable by tenants.
- (vi) The feasibility of pegging the estate value to the rateable value, as assessed by the Commissioner of Rating & Valuation, is ruled out.
- (vii) The existing method of rates, payment should be maintained.
- (viii) The existing practice of biennial rent reviews remains appropriate and should be continued.
- (ix) The Authority can adopt a flexible approach to its rent policies, without having to relate them restrictively to cost factors.
- (x) For administrative convenience, there should be a uniform method for calculating the tenants' household income.

## Appendix D

### Summary of Rent Increases (1987/1990)

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Date of Rent Review	Group Estates	Percentage/Amount of Increase Per Flat		Median Rent Income Ratio		Comparison with Market Rent
		Majority	Average	Overall	Double Rent	
1.4.87	6 Former Housing Authority	24-25% \$60-\$120	24.9% \$97	9.0		23-26%
1.8.87	49 Post-1973	3-20% \$4-\$125	16.5% \$82	10.6	-	21-42%
1.4.88	4 Former Housing Authority	18-21% \$56-150	30.1% \$102	8.5	-	29%
1.9.88	57 Post-1973	3-185 \$14-\$125	14.5% \$76	10.3	-	20-43%
1.12.88	48 Group B & Former Government Low Cost Housing	20-23% \$21-\$99	21.7% \$50	5.3	-	21-35%
1.4.89	6 Former Housing Authority	21-22% \$61-\$160	22.0% \$107	8.1	8.7	24-31%
1.9.89	58 Post-1973	10-17% \$15-\$125	14.8% \$88	10.2	9.1	22-45%
1.4.90	4 Former Housing Authority	13-18% \$61-\$160	18.1% \$111	8.3	10.1	22-29%
1.9.90	68 Post-1973	14-22% \$24-\$175	19.8% \$122	10.0	9.6	18-41%
1.12.90	42 Group B & Former Government Low cost Housing	8-24% \$13-\$125	23.9% \$69	5.2	5.5	17-30%

## Appendix E

## Rates increase - Domestic Properties in 1989 1990

	Before Rates Income	After Rates Income
Real Income	\$3,568.0M*	\$3,568.0M
Rates	\$ 615.0M*	\$769.5M

No. of Flats (Average I.F.A./flat : 27.1m <sup>2</sup> )	607,955	607,955
Rates per m <sup>2</sup> per month	\$3.11	\$3.89
% of rates to rent	17.3%	21.6%

## Appendix F

## Current Allocation Standards

Size of Flats in sq.m. (internal Floor Area)	Allocation Range (in persons)	Range of Space Per Person (sq.m.) IFA
<b>Group B &amp; Former Government Low Cost Housing</b>		
7.9-19.8	1	7.9 - 19.8
23.3-25.0	2-3	7.8 - 12.5
26.0-29.6	3-4	6.7 - 9.9
33.0-39.0	4-5	6.6 - 9.8
<b>Former Housing Authority &amp; New Housing Authority Estates</b>		
10.8-11.9	1	10.8 - 11.9
15.1-19.8	2	7.6 - 9.9
23.6-24.9	2-3	7.9 - 12.5
25.1-29.4	3	8.3 - 9.8
30.0-34.4	3-4	7.5 - 11.5
36.0-43.0	4-6	6.0 - 10.8
44.0-50.2	6-8	5.5 - 8.4
57.1-61.5	8-10	5.7 - 7.7

## Appendix L

**Estimated Median Rent -Income Ratio (MRIR) and Per Person Space Standard (IFA) of Prospective Tenants  
Opting for Harmony Flats at 2nd Quarter 1989**

<b>Household size</b>	<b>1p</b>	<b>2p</b>	<b>3p</b>	<b>4p</b>	<b>5p</b>	<b>6p</b>	<b>7p<sup>+</sup></b>	<b>Overall</b>
<b>Flat Type</b>								
(1) 1p	11.5							11.5
-Space standard (sq.m/person) - MRIR (%)	14.6	-	-	-	-	-	-	14.6
(2) Small Flat	17.0	8.1						8.1-17.0
- Space standard (sq.m/person) - MRIR (%)	20.4	13.1	-	-	-	-	-	14.1
(3)1-Bedroom		17.3	11.5	8.6	(6.9)			8.6-17.3
- Space standard (sq.m/person) - MRIR (%)	-	26.0	17.7	16.2	(14.5)	-	-	17.6
(4)2-Bedroom				10.9	8.7	(7.2)		8.7-10.9
- Space standard (sq.m/person) - MRIR (%)	-	-	-	20.5	18.4	(15.8)	-	19.0
(5)3-Bedroom						8.5	<7.2	8.5
- Space standard (sq.m/person) - MRIR (%)	-	-	-	-	-	18.4	13.3	16.4
Overall	11.5- 17.0	8.1- 17.3	11.5	8.6-10.9	8.7	<7.2-8.5		8.1-17.3
- Space standard (sq.m/person) - MRIR (%)	16.3	20.2	17.7	19.3	18.4	16.4		18.2

	<b>Minimum Allocation Space (m<sup>2</sup> person IFA)</b>	<b>MRIR</b>
<b>Estimated Standard :</b>	7.2 m <sup>2</sup>	18.2%
<b>Standard Recommended by the Committee :</b>	8.0 m <sup>2</sup>	18.5%

## Assumptions

- (1) Unit rent for Harmony block is the same as the existing rent for the best current block types.
- (2) Current rent fixing policy will remain unchanged and that there will be no real increase in unit rent in 1988/89 - 1991/92.
- (3) The overall MRIR figures are derived by weighing in accordance with the distribution of flats by flat types and household size.

## Note

- (1) Date of household income are based on HATMIS application file for the period 1.1.89 - 30.9.89. For 1-2P households however, income on Waiting List applicants and compassionate cases were excluded because of the small number of households rehoused from these categories.
- (2) Figures in bracket denote the lower standard of allocation for applicants in favour of lower rent; they do not form part of the calculations of the "overall" columns.

## Appendix M

### Programme of Blocks to be completed 1990/91-1994/95

Block Type	Harmony 1	Harmony 2	Harmony 3	New Slab	Linear 1	Linear 3	Trident 3	Trident 4
Year	No. of Blocks to be Completed in the Year							
90/91				5	11	2	14	27
91/92				4	3	1	11	11
92/93	23	9	10		3	2	4	1
93/94	26	9	14		1			
94/95	14	9	4					