

# Housing Authority

1996

## Report on the Review of Home Ownership Schemes

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## CHAPTER 1

### INTRODUCTION

#### BACKGROUND

1.1 At the meeting of the Home Ownership Committee (HOC) on 11 May 1995, Members requested a comprehensive review of the Home Ownership Scheme (HOS), including the Private Sector Participation Scheme (PSPS), having regard to public concern over the quality, pricing and management of HOS/PSPS flats. The review will also provide useful input to the Long Term Housing Strategy (LTHS) beyond 2001 on which the Secretary for Housing (S for H) has commenced work.

1.2 On 17 May 1995, the Legislative Council (LegCo) passed a motion urging "the Government and the Housing Authority (HA) to conduct a review of the HOS which should include -

- (a) the number of flats produced and the pace of production;
- (b) the ratio of HOS flats to public rental housing flats;
- (c) the pricing policy and method of mortgage repayment; and
- (d) the construction materials used, maintenance and repair, and other related issues."

A summary of the comments made by members of the LegCo during the motion debate is at **Appendix 1** for reference.

1.3 In the Administration's response, the S for H supported the motion.

1.4 Having regard to HOC's intention to review HOS/PSPS, as well as the motion passed by LegCo, the HA endorsed a review of the HOS/PSPS with the following terms of reference -

- (a) To determine the future direction of the HOS, which will include an assessment of the demand and supply of flats for sale, the ratio of

production of home ownership to rental flats, and measures to promote home ownership.

- (b) To review the terms of sale and resale, covering the pricing formula, resale restrictions, mortgage and financing.
- (c) To propose measures to enhance quality assurance through design and specification, feedback on user expectations and satisfaction, selection and management of contractors, and maintenance and defects liability.
- (d) To examine ways of improving the PSPS, in terms of the selection of developer, project monitoring and quality control, and management of non-domestic properties.
- (e) To assess the effectiveness of the existing modes of management of HOS/PSPS flats and recommend improvements.

### **Division of Responsibilities**

1.5 Item (a) of the terms of reference concerns the overall development of home ownership which is a strategic policy issue and requires a coordinated approach on demand assessment, land supply, the pace of production, the interface between public and private housing, and the correlation between HOS/PSPS and rental housing production. It is one of the key elements of the LTHS which is currently being reviewed by the S for H.

1.6 Item (d) of the terms of reference involves a review of land grant conditions which is outside the ambit of the HA. The Housing Branch (HB) therefore takes a lead in this part of the review, with the participation of the Housing Department (HD).

1.7 On 4 November 1995, the HA held a brainstorming session to generate ideas for the Review which were followed up by the HOC. The work of the HOC over the past few months and the conclusions reached are set out in the following chapters.

## CHAPTER 2

### THE HOME OWNERSHIP SCHEME

#### BACKGROUND

2.1 Improved economic conditions in Hong Kong brought with them a demand from the public for improvements in living conditions as well as a growing aspiration to own one's home. This is well recognised by the Government, and indeed, one of its main housing policy objectives is to promote and satisfy the growing demand for home ownership. Much efforts and resources from the public sector have been devoted to achieving this aim.

2.2 The HOS is, by far, the most important vehicle in the delivery of public assistance for home ownership purpose. The HOS set up in 1976, and supplemented by the PSPS in 1977, have the following objectives -

- (a) to encourage better off public rental housing (PRH) tenants to upgrade to home ownership so that public rental flats released by them could be allocated to other families in need of assisted housing; and
- (b) to provide an avenue to home ownership for middle income households who were not eligible for public rental housing, and are unable to afford to buy private sector housing.

#### Achievements

2.3 Since the first sale of HOS/PSPS flats in 1978, over 204,000 flats have been sold under the scheme. Some 95,000 PRH households have purchased flats under the scheme, with more than 80,000 rental flats recovered for reallocation. Furthermore, some 91,000 households with income below the Home Ownership Scheme Income Limit (HOSIL) have purchased HOS/PSPS flats.

#### Home Ownership Rate

2.4 As at 31 March 1996, the HA has a stock of 204,000 HOS flats and 660,000 PRH units. The ratio between HOS and PRH flats is 1: 3. The overall home ownership rate in Hong Kong is 52% of which 11% are in public housing.

This is in stark contrast to the situation in Singapore where over 90% of the public housing stock is owner - occupied and the overall home ownership rate is close to 90%.

## FUTURE DIRECTION

2.5 There is much to be said for home ownership as a desirable social objective. Home ownership increases one's sense of belonging to the community, and enhances personal financial planning and security. Home owners also tend to pay better attention to the management and maintenance of their property which, in turn, contributes to a better environment. In Hong Kong, ownership of property has also proven to be a popular and valuable investment.

2.6 Whereas the public housing programme started as early as in 1953, the HOS was only introduced in 1978, a lag of 25 years. At present, over 300,000 households in public rental housing have ten or more years of residence, many of whom have improved their financial status substantially during this time. As a matter of principle, the HA considers that households who do not require rental housing subsidy should make way for more needy families. The HOS provides an alternative to rental housing for households who can afford home ownership. Much more can and should be done to promote home ownership among public rental housing tenants so as to increase the turnover, hence the efficient utilisation, of limited public housing resources.

## HOME OWNERSHIP STRATEGY

- 2.7 To promote home ownership among existing tenants, we have to -
- (a) make home ownership more attractive, e.g. by improving quality assurance, and increasing the attractiveness of HOS flats as an investment;
  - (b) make home ownership more affordable to a wider range of tenants, e.g. by widening the price range, and introducing more favourable or more flexible financing terms to suit individual circumstances; and
  - (c) to increase opportunities and choices for prospective buyers, e.g. by providing a range of products, and introducing a secondary market for secondary-hand HOS flats.

## FINANCIAL SIGNIFICANCE

2.8 The success of the HOS has enabled the HA to become financially self-supporting since 1992 and to generate sufficient funds to finance its large public housing production programme. In 1995/96, revenue from HOS sales amounts to 56% of the total income. With forecast capital expenditure under the Housing Capital Works Fund over the period to March 2001 currently projected at over \$85 billion, the success and financial contribution from the HOS is an essential element to the Authority's ability to maintain its services and fund an expanding construction programme.

2.9 Therefore, in examining various measures to promote home ownership, the impact on the net income forecast from the HOS must be carefully and thoroughly evaluated. We must ensure that any changes to the HOS must not only meet the desired housing and social objectives, but also protect the continuing independence and financial strength of the Authority.

## CHAPTER 3

### PROMOTION OF HOME OWNERSHIP AMONG COMPREHENSIVE REDEVELOPMENT PROGRAMME TENANTS

#### BACKGROUND

3.1 Over the next five years, the Comprehensive Redevelopment Programme (CRP) will feature very significantly in HA's schedule of activities. A very substantial proportion of the new PRH production during this period has been set aside to meet the commitment to rehouse households affected by CRP in the same district. Although most CRP tenants have received the benefit of heavily subsidised rental housing for over ten years and should thus be in a better position generally to upgrade to home ownership, their mobility in this direction has been slow despite being accorded first priority green form status in the purchase of HOS flats.

3.2 In a survey undertaken by the HD to ascertain the propensity of CRP tenants to buy HOS flats, some 16% of those surveyed indicated that they would be interested to buy if there were financial incentives to make the flat more affordable and another 7% indicated that they would be interested if the HOS flats were located in the district of their choice, normally the district they are already living in. It is clear that in order to achieve a higher home ownership rate among CRP tenants, the location factor and additional financial incentives need to be addressed.

#### THE LOCATION FACTOR

3.3 An important factor which influences the propensity of the CRP tenants to buy HOS flats is location. Understandably, CRP tenants would prefer the HOS flats to be located within the same district where they live because of existing social ties and distance from place of work etc. The fact that suitably located HOS flats might not be available for purchase prior to the clearance deadline of their CRP estates might deter them from purchase.

3.4 In the planning of the redevelopment programme, availability of reception PRH flats for the displaced tenants is a major factor. Every effort is



being made to ensure adequacy of reception flats. We propose to offer some of the reception blocks for sale to CRP tenants who are willing to purchase. In doing so, care will be taken to ensure that there are sufficient rental flats within the same district to accommodate those CRP tenants who cannot afford to buy.

## **Transfer Blocks**

3.5 Before a decision is taken to transfer a reception PRH block for sale to CRP tenants, it is necessary to ascertain the interest of affected tenants to buy HOS flats. To this end, the Department would undertake a full survey of the tenants involved as soon as the target date of evacuation is announced. Information concerning the locations of the blocks which might be transferred, sizes and prices of the flats, as well as any financial subsidy available for the purchase would be provided to the CRP tenants to assist them in deciding whether they would purchase. The results of the survey would give a good indication of the number of tenants who would take advantage of this unique opportunity to purchase their own home in a preferred location and a firm base for the Authority to decide on the number of reception blocks to be transferred.

3.6 Nevertheless, there remains the possibility that not all the flats available in the transfer blocks would or should be sold. For example, if the transfer block contains Housing for Senior Citizens (HSC) which are not amenable to sale, or if flats of one person households are in short supply and need to be reserved for rental to those one person households who cannot afford to purchase. In this respect, the HA should retain the HSC and those one-person flats for rental purposes.

3.7 In the event that there still remain a certain number of flats which have not been taken up by the target group, these flats might be offered for sale to PRH tenants living in the same district of the CRP block, who are occupying relatively new rental flats built within ten years, so that these flats could be released for reallocation and improve the living condition of CRP tenants who cannot afford to buy.

3.8 Views have been expressed that the scenario described in paragraph 3.7 above would mean that some of the CRP tenants who could not afford to purchase flats in the transfer blocks, might be offered refurbished rental flats as a result, and is therefore inequitable.

3.9 To overcome this situation, an alternative has been suggested. The alternative provides that a new rental block would only be transferred for sale only if the flats are fully taken up by CRP tenants i.e. it would require a 100% trigger point for the transfer of reception blocks. This would obviate the need to sell flats to other

PRH tenants in the same district and preserve the probability of CRP tenants being allocated new reception accommodation.

3.10 However, contrary views have also been expressed on the alternative proposal. The alternative approach means that a reception block would not be transferred for sale even if the vast majority of the flats would be taken up because of the 100% up-take requirement. This would frustrate the wish of those CRP tenants who are willing to purchase such transfer block flats, an opportunity which might not present itself again. The contention that the probability of CRP tenants being allocated new reception rental accommodation must be preserved has also been questioned. Since the proposal set out in paragraph 3.7 already provides that refurbished rental flats built within ten years would be available as replacement flats, substantial improvement to the living condition of CRP tenants who cannot afford to buy has been assured. After all, in every redevelopment project, there is always a certain percentage (average of 14%) of CRP tenants who are allocated refurbished flats for various reasons, such as lower rents or other personal circumstances.

#### FINANCIAL INCENTIVES

3.11 For most aspiring home buyers, the biggest hurdle to home ownership is the initial down payment and repayment of the mortgage loan in the initial years. For green form HOS purchasers, the downpayment is only 5% of the flat price. This is reasonable and should be affordable to many CRP tenants.

3.12 As regards means of easing the burden of the repayment of mortgage loan, the following options have been examined -

- (a) low interest mortgage loan;
- (b) a rent and buy scheme;
- (c) reduction in purchase price;
- (d) a deferred mortgage arrangement; and

- (e) mortgage subsidy scheme.

### ***Low Interest Mortgage Loan***

3.13 For HOS flat buyers, the financial institutions offer a concessionary mortgage interest rate at 9.0% currently. However, given the current average rate of return on the HA's investment at about 6.5%, it is conceivable that the HA could assume the role of mortgage lender and employ a mortgage interest rate which is somewhere between the average rate of return on HA investment and the prevailing concessionary HOS mortgage rate.

3.14 While this approach would achieve the objective of lowering the monthly mortgage repayment for the buyers, it would mean that the HA would become the lending institution. This would have implications for the mortgage market and HA's cashflow position. Therefore, this approach is not pursued.

### ***A Rent-and-Buy Scheme***

3.15 Instead of buying the entire HOS flat, purchasers have the option of buying, say, half the flat and rent the other half from the HA. This would achieve a reduction in the monthly repayment outlay for the purchasers. As and when the purchasers' financial position improved, they could buy the remaining portion of the flat from the HA. However, this arrangement is administratively complicated, and the question of legal ownership of the property, as well as the responsibility for structural maintenance and management expenses is unclear. This would open up opportunities for dispute. There is also the question of equitable mechanism to determine the price when the owner/tenant wish to purchase the remaining portion, or, for that matter, a further portion of the property involved.

3.16 Without wishing to rule out this option, it must be pointed out that a feasible scheme which addresses all the uncertainties mentioned in the above paragraph, is likely to take some time to design and bring into fruition. Given that the CRP is governed by an on-going time-table, a simpler and quicker alternative is preferred.

### ***Reduction in Purchase Price***

3.17 A reduction in the purchase price of flats in the transfer blocks is the simplest form of financial incentive. However, it would require a very substantial additional discount on prices before an impact could be made on the monthly

mortgage payments which would remain high compared to the level of rent a CRP tenant is likely to pay if he continues to stay in PRH. This sudden increase in housing related expenditure is a significant psychological deterrent to some CRP tenants who wish to up-grade to home ownership. Furthermore, this additional discount would increase the amount of premium payable upon resale in the open market after ten years. This would in turn increase the disincentive to sell and reduce the turnover of HOS flats. With different levels of discount for transfer blocks sold to different target groups, it would also make the "prevailing HOS prices" concept adopted in the resale restriction regime difficult, if not impossible, to implement. Finally, the implication of this approach on the prices of HOS flats in general and thus the HOS proceeds receivable by the HA must not be under-estimated.

### *A Deferred Mortgage Arrangement*

3.18 Instead of requiring buyers to take out a mortgage loan right from the beginning, buyers would only be asked to make a down payment for their flats. During the initial period of two to three years, buyers would make a monthly payment to the HA which counts against the purchase price of the property. After this initial period, buyers would then arrange a mortgage loan for the outstanding purchase price from financial institutions to repay the HA. The monthly payment in the initial period could be pegged at a level which could be lower than the monthly repayment of an outright mortgage loan and would ease the burden of the buyers. Moreover, the eventual mortgage loan would be for a smaller sum. An initial period of three years before taking out a mortgage loan would be able to provide a reasonable level of assistance to the CRP tenants to encourage them towards home ownership.

3.19 However, this approach would have a significant effect on the cashflow position of the HA as the full HOS sale proceeds would only be receivable after the initial period.

### *Mortgage Subsidy Scheme*

3.20 Under this arrangement, CRP tenants would purchase HOS flats in the usual way i.e. full payment of the purchase price to the HA through 5% downpayment and a mortgage loan. The HA would assist home buyers in their repayment of the mortgage loans by a monthly grant of \$6,000, \$4,500 and \$3,000 in the first, second and third year respectively. An outline of the form which this incentive would take is at **Appendix 2**. The calculations are based on 20-year

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mortgages. To take full advantages of the subsidy, buyers of cheaper flats may take out shorten-term mortgages.

3.21 This arrangement commends itself on a number of points. First, it is

simpler to understand and to administer, as the concept is similar to the monthly subsidy option of the existing Home Purchase Loan Scheme. Secondly, it is more equitable than the deferred mortgage arrangement in that all CRP tenants who buy HOS flats receive the same amount of subsidy irrespective of the price of the flat purchased. Thirdly, the impact on the HA's cashflow would be much smaller than the deferred mortgage arrangement, at roughly the same cost. The estimated financial impact arising out of this incentive is at **Appendix 3**.

3.22 Having considered the pros and cons of the various financial incentives options, the HOC recommended the mortgage subsidy scheme.

3.23 Consideration has also been given to whether such subsidy should be recoverable upon resale of the flats. Given that the subsidy is in addition to the already heavily discounted HOS prices, and in keeping with the spirit of the first tier of resale restriction aimed at deterring speculations, it is also recommended that should owners wish to resell during the three years when the subsidy is payable, they would have to repay HA the total sum of subsidy received. However, after three years, the subsidy would not be clawed back upon re-sale.

## **POLICY OPTIONS**

### **(a) Transfer Blocks**

#### *The first Scenario*

3.23 Suitable reception PRH blocks will be identified and transferred to HOS for sale to CRP tenants. Flats in the transfer blocks not taken up by CRP tenants will be offered for sale to PRH tenants living in rental flats built within ten years so that relatively new rental flats would be released for allocation to CRP tenants who cannot afford or are unwilling to buy.

#### *The second Scenario*

3.25 Alternatively, reception PRH blocks will be transferred for sale only if the flats could be fully taken up by CRP tenants. This would mean that the offer of flats for sale to PRH tenants within the same district would not arise. The end

result is that a percentage of CRP tenants who wish to buy will be forced to rent because there are not enough flats for sale to meet the total demand.

### **(b) Financial Assistance**

3.26 CRP tenants, purchasing flats in the transfer blocks will enjoy the benefit of the Mortgage Subsidy Scheme as outlined in paragraph 3.20. However, it was considered that well-off tenants among CRP households should not be given further subsidy. It is therefore proposed that CRP tenants who are required to pay market rent (i.e. whose income exceed three times the 1996/97 Waiting List Income Limit (WLIL) and who possess net assets worth 110 times the 1995/96 WLIL), will not be eligible for the mortgage subsidy in buying flats of the transfer blocks. It has also been suggested that one-and-a-half times and double rent payers should likewise not be eligible for the mortgage subsidy.

3.27 CRP tenants already enjoy priority in the purchase of ordinary HOS flats and the over-subscription rate among green form buyers exceeds five times in recent phases of sale. Unless there is a corresponding increase in HOS supply, making home ownership more easily accessible to CRP tenants by giving them a housing subsidy will only reduce the opportunity of ordinary green form applicants to purchase HOS flats. With this in mind, it is recommended that CRP tenants who buy ordinary HOS flats i.e. HOS flats other than those in the transfer blocks should not be eligible for the mortgage subsidy.

3.28 Under the first scenario set out in paragraph 3.24, flats in the transfer blocks not taken up by CRP tenants will be offered for sale to PRH tenants living in PRH estates in the same district which are within ten years old. There are divergent views on whether the benefit of mortgage subsidy should also be available to these buyers as an exceptional concession. Bearing in mind that there is a need to ensure a sufficient number of reasonably new flats are available in the same district for allocation to CRP tenants who do not wish to buy, the balance of view is in favour of the subsidy being available to these buyers as well. However, it has also been suggested that the amount of subsidy should be reduced for these buyers.

3.29 In arriving at the above proposals, it must be emphasized in the strongest possible terms that there is no intention to force CRP tenants to purchase flats in the transfer blocks. The decision to transfer reception blocks for sale will be based entirely on the CRP tenants' willingness to purchase to be ascertained through a survey. The intention is to offer a unique opportunity to purchase HOS

flats in the same district they are living in and to provide some financial incentive to assist them in achieving home ownership.

## THE WAY FORWARD

3.30 There has been a lot of public interest in the proposals relating to the promotion of home ownership among CRP tenants set out in this chapter. Moreover, there was a body of opinion from interested parties, including the LegCo's Housing Panel, that the public should be consulted on proposals arising from the HOS review.

3.31 It is clear that the proposals in this chapter are an integral part of the overall efforts to promote home ownership. Since the policy on home ownership is being examined in the context of the LTHS review currently undertaken by the Housing Branch, it would be appropriate that the LTHS review should also cover any new initiatives in this direction. It is, therefore, recommended that the proposals on promotion of home ownership among CRP tenants be incorporated in the LTHS review, the result of which will be the subject of an extensive public consultation exercise.

## CHAPTER 4

### RELAXATION OF RESALE RESTRICTIONS

#### BACKGROUND

4.1 The prevailing resale restrictions<sup>1</sup> on HOS/PSPS flats were designed to discourage speculations, and have been very effective in this respect. Between 1992/93 and 1994/95, the average turnover rate of HOS/PSPS flats in the first and second five years of ownership were 0.06% and 0.32% of the respective housing stocks per annum. By comparison, the turnover of flats after the first ten years of ownership was much higher, reaching 3.8% and 4.7% of such housing stocks in 1993/94 and 1994/95 respectively.

4.2 There is little incentive to sell within the first ten years of ownership because flat owners would not be able to reap the full benefit of any capital appreciation of their flats by reselling back to the Authority at original or prevailing HOS prices. Moreover, with the size of discount rates reaching some 45% on market value of the HOS flat in recent years, the buy-back prices offered by the Authority are probably seen as unattractive. Some owners would rather wait ten years for the opportunity to resell in the open market even if they can afford private sector housing. The situation could have led to under-utilisation of scarce housing resources.

4.3 A recent survey undertaken by the HD on the transaction of HOS/PSPS flats after ten years of ownership showed that about half of the flats were sold to households whose income exceeds the HOSIL. About 15% of the flats were bought by PRH tenants who continue to retain their PRH flats. These transactions cannot help to resolve the problem identified in the mid-term review of the LTHS i.e. the lack of mobility among PRH tenants to home ownership. The preliminary results of another survey undertaken by the HD on the propensity of HOS/PSPS owners within five to ten years of ownership to upgrade their properties indicated that about 24% of these owners are prepared to sell their flats if they can do so in the open market. Moreover, some 2% to 3% of the flats, which translates into 1,200 to 1,800 flats, were suspected to have been left vacant.

#### OPTIONS FOR CHANGES

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<sup>1</sup> Within first five years of ownership - resale to HA at original prices. From sixth to tenth years - resale to HA at prevailing HOS prices. After ten years - resale in the open market, subject to payment of premium proportionate to the original price discount at the time of purchase.



4.4 While every effort should be made to ensure that the resale arrangements should provide a safeguard against speculation, it is equally important that the system should not encourage under-utilisation of scarce housing resources. To strike a balance, the HOC endorsed the proposal that the alienation period should count from the date of first assignment from the HA instead of from the date of ownership by the buyer, and to curtail the initial period of restriction to three years from the date of first assignment from the HA<sup>2</sup> but retain the requirement to resell to the HA at original prices during this period.

4.5 The survey results in paragraph 4.3 above show that a general relaxation allowing resale in the open market would not help to increase turnover among PRH tenants. It is therefore not proposed to change the restriction on resale in the open market except that the period of resale restriction should be ten years from the date of first assignment from the HA, instead of ten years of ownership by the buyer.

4.6 The present resale restriction regime provides for resale of the flats back to HA during the first ten years of ownership. This opens up the possibility of vintage HOS flats being recycled through the HOS sale programme and still remaining within the ten years of resale restriction. As a result, the HA may find itself carrying a larger contingent liability for mortgage loans in respect of older HOS flats. Although the number of HOS flats being recycled is small at the moment, this problem is likely to grow with time. The proposed change to count the resale restriction period from the date of first assignment as opposed to years of ownership will provide an earlier opportunity for recycled flats to be transacted in the open market.

4.7 To promote the mobility of PRH tenants to home ownership, the HOC endorsed the establishment of a secondary market for HOS/PSPS flats in the fourth year from first assignment onwards which will be available for purchase by PRH tenants and those who are eligible for PRH e.g. carees, Waiting List applicants etc. This will be offered as an alternative to the present arrangement of resale to HA at prevailing HOS prices. PRH tenants who purchase HOS/PSPS flats in the secondary market will be required to surrender the PRH unit they are occupying. It is envisaged that the restricted secondary market would operate under the following parameters.

## THE SECONDARY MARKET

### *Parameters*

4.8 The buying and the selling parties would be free to negotiate the price of transaction. In doing so, the selling party would not be asked to pay a premium to the HA, but the buying party would inherit the liability to pay a premium should he seek

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<sup>2</sup> The date of first assignment from HA refers to the date of first ever assignment of a particular flat from HA to a buyer. In the case of PSPS flats, the date refers to the date of first ever assignment of a particular flat from the developer to a buyer.

to sell the flat eventually in the open market. This must be borne in mind by both parties when they negotiate the transaction.

### *Advantages*

4.9 Households who buy in the secondary market would no longer be required to resell the HOS/PSPS flats to the HA within the first three years of purchase. They would be free to resell in the secondary market anytime but could only resell in the open market ten years from the date of first assignment by the HA, subject to the payment of a premium proportionate to the price discount at the time of first assignment. They may also opt to resell in the secondary market even after ten years from the date of first assignment but, in order to contain the HA's overall contingent liabilities, the HA would only underwrite mortgage loans taken out by buyers of such HOS/PSPS flats for up to twenty-five years from the date of first assignment.

4.10 The advantages of purchase through this secondary market for the buyer include certainty of location and flats (without the need to ballot if purchase through HOS sale exercises), the benefit of inspecting the flat and its interior conditions before deciding to buy, greater flexibility over resale arrangement, and transactions could be done throughout the year. For the seller, he would be able to cash in on a desirable location, recover part of the cost of interior decoration, and receive a share of the capital appreciation without any premium deduction.

4.11 The secondary market aims to increase turnover and efficiency in the utilisation of housing resources. For each transaction completed in this secondary market, two households will benefit. One PRH household will become home owner, and a PRH flat will be released for allocation to households in need of housing assistance.

### *Size of the market*

4.12 At present, there are about 86,000 HOS/PSPS flats in the fourth to tenth year from first assignment. Assuming a 3% turnover, which is about the same level as that recorded for HOS/PSPS flats currently available for resale in the open market, the secondary market might generate some 2,500 PRH flats for reallocation in a year, as a result of PRH households giving up their rental flats after having purchased HOS flats in the secondary market.

### **Mode of Operation**

4.13 It is envisaged that the secondary market could operate in the same manner as in the open market, i.e. through estate agents with assignments being dealt with by solicitors. If this is the case, then estate agents as well as solicitors would have to be carefully briefed on the scheme, particularly in respect of the inherited liability to pay premium should the buyers wish to resell the flats in the open market upon reaching the point of ten years after first assignment, so that they could brief the buyers of this liability.

4.14 Alternatively, the Authority could establish centre(s) for this secondary market so as to provide focal point(s) for prospective buyers and sellers to put flats on the market and to exploring opportunities. The staff of the centre(s) would be in a position to brief both parties and especially the buyers of their responsibilities and liabilities. The solicitors would of course have to be briefed separately. Such centre(s) would also be well placed to build up a data base on transactions in the secondary market for future reference and development of the market.

4.15 When the HOC considered the proposal, views have been expressed that the HA should perhaps consider establishing such sale centre(s) initially in order to ensure that the secondary market be put on a proper footing before involving the estate agents.

4.16 The Department has considered the pros and cons of both approaches in some detail. It is clear that the sale centre(s) approach would ensure that the buying and selling parties would be thoroughly briefed on their respective responsibilities and liabilities. However, it might not be appropriate for the HA staff working in these centre(s) to provide some of the services normally provided by the estate agents such as arranging for inspection of flats, and witnessing preliminary sale and purchase agreement etc which are essential to facilitate

transactions. Even if it is considered appropriate for these centre(s) to take on the provision of such services, the start-up costs would be substantial if an effective and convenient network of centres were to be established. To do so might also attract criticism that HA was engaging in an essentially private sector marketing activities.

4.17 On the other hand, with the involvement of estate agents in the operation of the secondary market, it would harness the energy and enterprise of the estate agents in the development of the secondary market. Moreover, some of the estate agents would already have well established network of offices as well as the necessary staff to provide services to promote such transactions. Provided that they are properly briefed on the details of the secondary market, and with the enactment of the Estate Agents Bills, the involvement of the estate agents in the operation of the secondary market right from the beginning would provide the necessary impetus and energy for the development of the secondary market.

4.18 One possible arrangement is for the secondary market should operate through estate agents but at the same time a Co-ordinating Unit be established by the Authority to undertake the various activities still required of the Authority, i.e. in briefing estate agents and the solicitors of the features of the secondary market, to certify the status of eligible buyers, to recover the PRH flats from successful purchasers, and to collate information on transactions so as to build up a data base for future reference. The feasibility of this approach will be further examined by the Department.

## **Financial Implications**

4.19 It is possible that some of the HOS/PSPS flats after ten years of assignment which would have been sold in the open market might move into the secondary market with a consequential reduction of premium proceeds receivable by the Authority. The current projections on premium proceeds receivable for the five year period from 1996/97 to 2000/01 is over \$8 billion. It is not possible at this stage to ascertain the impact of the secondary market on such revenue.

4.20 However, by restricting mortgage loan guarantee to within 25 years from first assignment, the potential for older flats to continue to be transacted in the secondary market would be restricted.

## LEGISLATIVE AMENDMENTS

4.21 In order to provide for the change in the resale restriction period from years of ownership to years from first assignment, the reduced period during which the flats are required to sell back to the Authority at original price, and the establishment of the secondary market under the prescribed parameters, it would be necessary to amend the Schedule to the Housing Ordinance to give the following effects :-

- (a) in the first three years from first assignment, resale at original prices to the HA only;
- (b) in the fourth to tenth years from first assignment, resale at prevailing HOS prices to the HA;
- (c) after ten years from first assignment, free transaction in the open market subject to payment of a premium proportionate to the original discount at first assignment; and
- (d) in parallel with (b) and (c) above, owners of HOS/PSPS flats in the fourth year from first assignment onwards may sell their flats at negotiated price to PRH tenants who will be required to release their PRH flats on completion of purchase or to other eligible persons.

4.22 The new provisions will be applicable to all HOS/PSPS sale and purchase agreement concluded before and after the revised Schedule to the Housing Ordinance becomes effective.

## CHAPTER 5

### PRICING AND MORTGAGE ARRANGEMENTS

#### PRICING POLICY

5.1 When the HOS was introduced, prices of HOS flats were determined on a full-cost recovery basis, including land premium, construction costs and HD administrative cost. By 1981, however, the costs of HOS flats had increased considerably, mainly because of substantial rise in land and construction costs, as well as the high interest rate at the time.

5.2 As a result, the present pricing formula, based on affordability, was introduced in 1982. The guiding principles are, first, to ensure that the median mortgage-to-income ratio would not exceed 40% and, second, to ensure that 50% of the flats should be affordable to families within the HOSIL.

5.3 Additionally, prices are determined with reference to the market value of comparable private sector flats in similar location, thus reflecting the relative attractiveness of the location of the flat. The end result is that prices of HOS flats, which are primarily determined on the basis of affordability, would also reflect a discount from their market value.

#### **Affordability**

5.4 Affordability is an important factor in the current pricing policy. The HOC had thoroughly re-examined the policy in 1991 and reviewed other means of determining prices which included construction costs plus land premium and replacement costs plus an element to reflect the relative attractiveness of location. On balance, the Committee concluded that the existing policy remained generally appropriate and was reaffirmed. The Committee also agreed at the time that in normal circumstances, a discount of 30% from the market value of a comparable private sector flat should be used as guideline in determining the price of an HOS flat but affordability to the target group should remain the primary consideration. Since then, the rate of discount from market value has increased to about 45% out of affordability consideration in a rising market.

5.5 The mortgage-to-income ratio (MIR) is a key indicator of affordability. An analysis of the MIRs based on HOSIL, HOS sale prices, and the mortgage interest rates since the adoption of the current pricing policy in 1982 showed that the average MIR is about 35%. This indicates that HOS prices remain generally affordable to prospective buyers within the HOSIL.

## **Observations**

5.6 The prices of HOS flats set on the current basis are clearly affordable, as reflected in the large over subscriptions recorded in recent years (an average of 12 times over the last five years).

5.7 The HD have examined the pattern of MIR of owner-occupiers of private sector housing. Information extracted from a private sector survey conducted in 1994 revealed that some 38% of owner-occupiers in private sector housing have MIRs of over 40% in the first two years of the loan repayment period. Indeed, discussions with financial institutions showed that generally MIR of 40% for mortgagors with monthly income of below \$30,000, and MIR of 50% for mortgagors with income above that level are used as points of reference. This is generally in line with the guiding principle of 40% MIR used in determining HOS prices. Nevertheless, in the context of promoting home ownership among PRH tenants, means of assisting lower income PRH households to achieve home ownership should also be examined.

## **AN ALTERNATIVE PRICING METHODOLOGY**

5.8 Against the above background and observation, the HOC examined and endorsed in principle an alternative pricing methodology which employs a fix-sum discount approach instead of the current average discount rate approach in pricing HOS flats.

### **Fix-sum Discount**

5.9 The existing pricing methodology applies generally the same discount rate to the market value of all flats within the same phase of HOS sale. However, minor adjustments to the discount rate might be made at the time of assignment to reflect changes in the market value of the flats after the sale prices were determined. One way of effecting a wider spread of prices which would be of assistance to the lower income group in achieving home ownership is to apply differential discount rates to the market value of the flats. The effect could be

achieved if a fix-sum discount is applied to all the flats within a particular phase of sale regardless of their market values. It would mean a small discount rate on the higher priced flats such as the larger flats and flats in the urban district, and a higher discount rate for the lower priced flats. This is also consistent with the spirit of providing equal level of subsidy to home buyers taking advantage of the Home Purchase Loan Scheme (HPLS).

5.10 The fix-sum discount per flat for each phase of sale is arrived at by computing the total dollar value of the discount for each phase (by multiplying the average discount rate with the total market value of all the flats of that particular phase) and divide it by the number of flats. An example of how this fix-sum discount approach could be applied is at **Appendix 4** for reference.

5.11 In order to ensure that the new pricing approach could be applied within the existing framework of HOS flat sales, extensive testing of the new approach has been applied to previous as well as forthcoming HOS sales. During the process, it became apparent that this new approach is highly sensitive to the flat mix of each phase of sale, i.e., the size of the fix-sum discount is heavily dependent on the proportion of flats with high market value as well as the proportion of flats with lower market value on offer. While flat mix could be adjusted to some extent, the flexibility is by and large limited by the geographical distribution and completion dates of new flats in the housing production programme. Moreover, an important consequence of the new pricing approach is that the prices of HOS flats in the same development could vary significantly from one phase of sale to another which might have a psychological impact on purchasers.

5.12 Under the circumstance, despite the attractiveness of the new pricing approach as a concept, refinements to the approach would have to be devised to overcome the undesirable effects set out in the above paragraph. In the meantime the existing pricing formula will continue to be applicable.

5.13 Nevertheless, the principle of equal level of subsidy for eligible households enshrined in the HPLS should be applied as far as possible in new measures to promote home ownership. Indeed, it is with this in mind that the Mortgage Subsidy Scheme to assist CRP tenants to purchase transfer block flat was designed (paragraph 3.21).



## **MORTGAGE ARRANGEMENTS**

5.14 At present, financial institutions offer relatively favourable terms for purchasers of HOS/PSPS flats. These include a down payment at 5% of the purchase price for green form and 10% for white form purchasers, concessionary mortgage interest rate currently at 9% for a mortgage term of 20 years. However, these arrangements do not offer sufficient options to suit the circumstances of some of the interested buyers, such as families with low household income at the moment but with good potential for enhanced income in the coming years.

5.15 The Department has entered into discussions with banks to explore more flexible mortgage arrangements. Additional flexibilities which might be of assistance include a longer mortgage repayment period say 25 to 30 years, stepped-up mortgage repayment levels as income of the mortgagee increases, repayment of interest in the initial years followed by repayment of interest and principal for the remaining term of the mortgage loan etc.

5.16 Initial response from financial institutions was encouraging but it would take some time to develop proposals for alternative products which could involve significant system and/or procedural enhancements on the existing mortgage arrangement. The Department will follow-up on this initiative.

5.17 However, should new mortgage products fail to materialize for whatever reasons, HA might consider providing more flexible mortgage arrangements along the line discussed with financial institutions to certain target groups of HOS purchasers who might require such flexibilities.

## CHAPTER 6

### DESIGN AND QUALITY ASSURANCE

#### BACKGROUND

6.1 The HOS construction programme has been successful and the procedures in place have generally been effective. However, in recent years, some projects with particular workmanship problems were drawn to the attention of the public and cast a shadow over the quality of HOS flats. Although much has been achieved by the HD to overcome the problems, it will be useful to re-visit the Quality Assurance measures that are already in place and to explore further improvement.

6.2 To meet the varied needs and expectations of purchasers of HOS flats, the HD has provided a wide range of block designs and flat types. There has been a continuous process of improvement in the designs, and in finishes (both exterior and interior) and fittings. In parallel, there have been improvements in the management of contractors.

6.3 Nevertheless, the HD has conducted a review on various aspects relating to the production of HOS flats with particular attention on the quality assurance procedures adopted for design and construction. The results confirm that the current approach is in the right direction, and that continuing efforts to bring procedures up-to-date in response to changing circumstances are essential. The procedures covered by this review as well as improvement measures proposed are set out in the following paragraphs.

#### HOS PRODUCT RANGE

6.4 There are currently four types of HOS design. These are either fully fitted flats ready for occupation, such as the New Cruciform Block (NCB) and in future the Concord Blocks, or a "shell" concept where much of the interior decoration and fitting out is carried out by the purchaser, such as the Harmony HOS and Harmony Transfer. The block types are -

These are the latest HOS design, employing two standard flat types, a 2-bedroom flat of 46 m<sup>2</sup> and a 3-bedroom flat of 60 m<sup>2</sup>. There are two standard block designs, Concord 1 with 8 flats per floor and 40 domestic floors and Concord 2 with 6 flats per floor and 30 floors. Drawings and specifications are currently under preparation and will be used in the first building tenders in the late 1996 with the first batch of flats becoming available for occupation in the 1999

(b) **New Cruciform Block (NCB)**

This is a purpose designed block for HOS introduced in 1984. There are three types of flat available, a 2-bedrooms flat of 37 m<sup>2</sup>, and two types of 3-bedrooms flat of 52 m<sup>2</sup> and 59 m<sup>2</sup>. There are 10 flats per floor and a maximum of 40 domestic floors.

(c) **Harmony HOS Blocks**

These are essentially Rental Designs with upgraded finishes and fittings in the flats and public areas. There are a range of flat types, 1-bedroom of 34 m<sup>2</sup>, 2-bedrooms of 43 m<sup>2</sup> and 3-bedrooms of 52 m<sup>2</sup>.

There are between 16 to 18 flats per floor and up to 40 domestic floors depending upon the particular block type.

(d) **Harmony Transfer Blocks**

These are rental blocks that are excised from a rental estate to create a separate HOS Court. The range of flat types and numbers of flats is very similar to the HOS Harmony Series but may also include some IP/2P flats. The HOS Transfer arrangement gives some flexibility to the HOS programme and allows adjustments to be made to address production or district shortfalls. The main difference between Harmony HOS and Harmony Transfer is in the fitting out of the flats.

## WIDER CHOICES

6.5 Each phase of the HOS sales programme endeavors to provide a selection of block and flat types in various districts of Hong Kong to make available to the purchasers as wide a range of choices as possible.



## **QUALITY ASSURANCE DURING THE DESIGN STAGE**

6.6 There are vigorous procedures in place for the vetting of both new and existing standard building designs which may be subject to further checking and changes where it is considered appropriate.

6.7 Changes are made to existing design on the basis of feedback received from project teams, contractors, estate management staff and residents. Data on defects in completed standard domestic blocks is also an important source of feedback which may lead to design changes. In addition, user surveys are conducted periodically to ascertain the views of residents or potential clients on design matters.

6.8 For new standard block design, it is common practice for mock-ups of new flat designs to be constructed to assist the project team to solicit views from the housing industry and the public at large. Mock-up flats have been built for the Harmony Block as well as the new Concord Block designs. An opinion survey on the design of the Concord Block was conducted among participants of organised visits to the mock-up flats. Results of the opinion survey provide useful feedback to ensure that the design satisfies client's requirements.

## **QUALITY ASSURANCE MEASURES DURING CONSTRUCTION**

6.9 A number of measures are adopted during the construction stage of a project to ensure that consistent standards are achieved as far as possible and that they are in accordance with the contracts. These measures are briefly described in the following paragraphs.

### **Standardisation and Factory Produced Components**

6.10 The more recent standard designs place emphasis on standardisation of building components and the use of factory production techniques to promote higher quantity, rather than labour intensive site trades. This concept was developed in the Harmony Blocks and has been extended to the Concord Block designs.

### **Site Inspection**

6.11 Particular attention is being placed on periodic inspections by qualified site staff as works proceed, with reports made to the Contract

Manager on progress, compliance with specifications, workmanship standards, site management and site safety. There are increasing elements of works being 100% tested so that defects identified in these areas are made good before the works are certified complete under the contract.

### **Listing of Contractors**

6.12 Approved lists of contractors are maintained by the Department and the performance of companies with current contracts is monitored on a regular basis through the Performance Assessment Scoring System for building contractors (PASS) and building services contractors (BSPASS). Contractors' performance is evaluated on a monthly basis using a scoring system. The score then determines the contractors' future tendering eligibility. A description of PASS is at **Appendix 5**.

6.13 In order to ensure that the systems are effective, they are brought under regular review with changing emphasis as the situation warrants. Every effort is being made to avoid subjective performance ratings, and to introduce gradings to reflect more accurately the different standards of performance.

6.14 It is now a requirement for all contractors and suppliers engaged on HA contracts to be registered under ISO 9002 for their production (construction) activities. Contractors cannot be confirmed on the approved lists unless they are registered and they are subject to regular performance checks. Registration alone does not guarantee that they will be awarded HA Contracts nor that they will remain on the lists.

### **Listing of Suppliers and Materials**

6.15 The HD maintains lists of approved suppliers for factory produced building components. These suppliers are required to prequalify for the lists by submitting their production processes and management to close scrutiny by the Department, as well as through trial production runs to ensure compliance with specifications. Production standards are maintained through regular factory inspections and random testing of products both at factory and on site. These suppliers are also required to be registered under ISO 9002.

6.16 Lists of building materials for use in standard domestic blocks are also maintained. The suppliers of these products must carry out rigorous testing to

ensure compliance with specifications and again periodic factory inspections are conducted.

## **MAINTENANCE RESPONSIBILITIES**

6.17 New buildings usually require some attention during the first year of occupation as the building settles down and passes through the cycle of seasonal variations in temperature and humidity. The HA has certain free maintenance responsibilities towards purchasers of HOS flats in the first year and these are summarised as follows -

- (a) Liability of the Building Contractor for maintenance under the Building Contract, for one year from the date of the certified Substantial Completion date. The Building Contractor is liable to remedy any defect, provided that it is not the result of deliberate damage, wear and tear or residents decoration work.
- (b) Liability of the HA for maintenance under the Agreement for Sale and Purchase (ASP), for one year from the issue of the Completion Certificate (effectively the HA's own occupation permit) issued by the Director of Housing. The resident is required to notify the HA of any defect within the one year period from the date of issue of the Completion Certificate. This liability for repair will be passed to the Main Contractor by the HA under the terms of the Building Contract and repairs will be carried out at no cost to the resident.

6.18 After the contractual maintenance liabilities of the parties expire, the responsibility for the cost of maintenance of the buildings passes to the purchasers, unless it can be shown that any failure is the result of materials and workmanship that are not in accordance with the contract and that could not be detected during the course of construction in which case, the 'latent defects' provisions would apply.

6.19 It is accepted that in the past, there have been occasions when a mis-match occurred between the dates of the Maintenance Period under the building contract and the Defects Liability Period under the ASP. However, with the current practice of issuing the Completion Certificate very close to the date of substantial completion under the Building Contract, the possibility of a mis-match recurring has been substantially removed.

## **WARRANTIES**

6.20 The Contractors are also required to provide Warranties under the Building Contracts for parts of the fabric of the building. These are stated in the Special Conditions of Contract (SCC) and are currently in place in HD standard HOS designs for -

- (a) piling works;
- (b) asphalt roofing;
- (c) acrylic paint finishes; and
- (d) tile adhesives.

6.21 The Housing Department is considering an expansion of the list of warranties to include the following items -

- (a) water penetration defects;
- (b) defects in walls, floors and ceilings;
- (c) plumbing and drainage defects; and
- (d) external works defects.

in line with the additional PSPS warranty provisions introduced in 1995. A recommendation will be made to the Building Committee of the HA shortly.

## **REFITTING/REDECOARATION OF HOS FLATS**

6.22 The fact that some purchasers of HOS flats undertook extensive refitting/redecoration of the flats particularly in respect of fittings in the kitchens and bathrooms has been registered by the Department. It is recognised that the practice is not only wasteful, it also puts at risk the built-in water proofing element if the refitting is not carried out properly by qualified contractors.

6.23 The approach currently adopted to discourage extensive refitting/redecoration is to fit out the flats to a much higher standard which is in keeping with contemporary practice and should satisfy the expectations of most, if



not all, prospective purchasers. At the same time, purchasers will be free to carry out their own painting and floor finishes of the living rooms and bedrooms. This approach is applicable to the latest NCB and the future Concord Blocks.

6.24 Consideration has been given to providing purchasers with some choice on fittings and finishes. However, given that HOS flats are currently offered for sale between six to eighteen months prior completion, and the need to order materials in advance by building contractors, the offering of such options at the time of sale might not provide enough lead time for programming purposes. If options were to be offered, existing contractual procedures would have to be reviewed. To better assess the feasibility of providing choice on fittings and finishes, the Department will undertake a small pilot project for the purpose. Care will be taken to ensure that such offer would not delay the completion of the project.

6.25 The possibility of offering purchasers the choice of upgraded standard fittings or no fittings at all have also been discussed but was found not feasible. This is because under the provision of the Building Regulations, specialist fittings such as those for bathrooms and kitchens must be provided to a prescribed standard before occupation permit could be issued.

6.26 The Housing & Development Board of Singapore (HDB) has also been consulted on their experience in offering a choice of fittings and finishes to their home buyers. It appears that kitchen and bathroom cabinets are not provided in new HDB flats. Kitchens are fitted with switches for power points and lighting points, gas point, coloured glazed wall tiles and matching floor tiles. Stainless steel wash basin is an optional item in order to reduce wastage. As regards bathroom fittings, four colour options are offered.

6.27 Nevertheless, HDB believes that if purchasers are prepared to accept the finishes and fittings provided, they will stand to benefit from cost savings arising from economy of scale. Moreover, if a wide range of options is offered to buyers to choose from, it would lead to higher tender prices due to uncertainty in the provision of finishes, more supervision required to ensure the correct items are provided according to buyer's preference with a consequential impact on administrative overheads, and a longer completion time. For these reasons, HDB does not encourage variation in provision for individual purchasers.

## **TIMELY COMPLETION OF HOS FLATS**

6.28 While there have been, in the past, delays to the completion of HOS projects because of under-performing contractors, most completion delays arose out of circumstances beyond the control of the contractors. These include -

- (a) situations which cannot be foreseen at the time of tender, e.g. underground obstructions and delays in infrastructure projects undertaken by other parties etc;
- (b) necessary variations as a result of policy changes, which required extension to the construction programme; and
- (c) improvements to standard designs implemented in the course of the contract..

6.29 To provide some redress to the above mentioned situations, a period of floating time has been incorporated into the target completion dates in both the Public Housing Development Programme and the ASP. Instructions to improve standard designs in the course of a contract will not be issued unless they are required out of concern for safety.

6.30 On the performance of contracts, the Department has recently reviewed the PASS, and more emphasis has been placed on the progress of the contract in evaluating the performance of contractors in order to minimize delays to project completion.

## **EX-GRATIA PAYMENT FOR DELAY IN COMPLETION OF FLATS**

6.31 In May 1995, the HOC approved amendments to the ASP which provided inter alia a new formula for computation of ex-gratia payment, i.e. at 2% over the prevailing prime rate on all amounts paid by the purchaser and to stipulate a restrictive set of circumstances under which extension of time (EOT) for completion of flats could be granted. For example, the clause which refers generally to EOT for cause of delay beyond the control of the contractors, has been modified by restricting the cause of delay as a result of inclement weather.

6.32 These revisions of the ASP provide HOS buyers with better protection against delay in completion, and a higher degree of certainty on the handover date.

## **OWNERS' INFORMATION**

6.33 It is accepted that it would be helpful to provide more information to the owners especially on aspects which they should pay careful attention to in home decorating. This would include such elements as water-proofing etc. A handbook will be prepared covering what the owners should know.

## **CHAPTER 7**

### **MANAGEMENT OF HOS DEVELOPMENTS**

#### **BACKGROUND**

7.1 The Authority is responsible for the management of HOS estates under the Crown Lease (CL) of the sites involved, unless and until the owners of individual HOS estates would form Owners Corporations (OCs) and assume the management responsibility of their own estates

7.2 A review of the Authority's management responsibilities in respect of HOS estates was undertaken in 1986. It was decided then that the Authority should aim to encourage owners to take over the management of their own properties from the Authority, through the formation of OCs. As a first step, the Authority would actively pursue an alternative means of delivering day-to-day management services, i.e. through property management agents (PMAs). To this end, the Department has undertaken a pilot scheme with two HOS estates.

7.3 The pilot scheme involving the employment of PMAs for the delivery of management services to Yue Shing Court and Shun Chi Court has proved to be successful. The management services provided by the PMAs include cleansing, security guard, maintenance and repair, landscaping and handling of residents' complaints. As a result, PMAs were employed to manage other HOS estates in 1987, and to all new HOS estates in 1989.

#### **PRESENT POSITION**

7.4 Up to the present moment, of the 93 HOS estates where OCs have not been formed, 57 are served by PMAs, while 36 are managed directly by the Department. Of the four HOS estates where OCs have been formed, two are served by PMAs and the remaining two will be switching over to agency management shortly.

7.5 In a recent opinion survey conducted by the Department, the owners' feedback on PMA management showed that the satisfaction rate of residents living in HOS/PSPS estates where management services were provided by PMAs was high. For owners in HOS estates which have switched to PMA management services, 68% preferred PMAs while only 5% thought otherwise. It is clear that

the transfer of management services to PMAs is a move in the right direction, and should be completed as soon as possible.

7.6 Although there are over 400 PMAs in the market, only 12 of them are registered on HA's Approved List. The relatively low participation rate is probably due to the high pre-qualification criteria, the need to comply with HA policies, generally low profit margin as well as the need to deal with often demanding owners. Proposals are being made to the Selection Panel of the Committee to absorb more firms to register on our Approved List, and to try them out on smaller projects initially.

7.7 In September 1995, HOC endorsed a five year programme of transfer to agency management for the HOS estates currently managed by HD. With the support of owners, the programme may be completed earlier.

7.8 As regards management services for the PSPS estates, they have always been provided by PMAs nominated by the developers.

### **Management Responsibilities**

7.9 While substantial progress has been made in the privatization of management services, the management responsibilities of HOS estates remain largely in the domain of the Authority. It has always been the Authority's objective to encourage owners to be directly responsible for the management of their properties. We believe that it is the immutable right of the owners to have the first and final say in how their properties should be managed, as well as the environment in which they wish to live in. Moreover, being responsible for the care and maintenance of their own properties would encourage owners to devote more attention to the upkeep of the common areas and facilities which would have a clear impact on maintaining if not enhancing the value of their investments. Although the Department has put in a lot of efforts to encourage the formation of OCs in HOS estates, owners have been reluctant to do so, partly because of a general apathy towards building management and partly because of a lack of confidence in assuming the management responsibilities. So far, only four OCs have been formed.

7.10 To motivate owners to take a greater interest in their own properties and investments, the Department has agreed with the Lands Department that the relevant provision in the CL will be changed to the effect that the Authority will in future manage HOS estates for 12 months after the building completion. A

corresponding provision will be included in the Deed of Mutual Covenant (DMC) to require owners to form OC within one year and to take on the management responsibilities of the estate

7.11 During the first year, the Department will encourage and assist owners to form OCs and to involve them in the management of the PMA responsible for the delivery of management services. In this way, owners will acquire the knowledge and gain enough confidence in their ability to manage the estate successfully so that they would willingly take over the management responsibilities.

7.12 The Department is in the process of drawing up a plan of actions to be undertaken with a view to achieving this objective. In doing so, care will be taken to ensure that there would be flexibilities regarding the stipulations on the period within which owners should assume management responsibilities so as to cater for some particular seen difficulties in the process of forming OCs.

7.13 In addition, efforts are being made to demonstrate to owners how the estate could be effectively maintained and to provide aids such as maintenance manual on major and essential maintenance items tailored to the requirement of the estates. The productions of such aids would be undertaken by the Department's maintenance Branch which has extensive experience in such matters.

## CHAPTER 8

### PRIVATE SECTOR PARTICIPATION SCHEME

#### BACKGROUND

8.1 The PSPS was introduced in 1978 as a supplement to the HOS. The intention of the Scheme is to engage the expertise and resources of private sector developers in the production of HOS-equivalent flats for sale to prospective home owners eligible for HOS flats. Since its inception, the PSPS has produced a total of 61,554 flats by the end of 1994/95.

8.2 However, there have been criticisms from owners on the quality of PSPS flats particularly in respect of the standard of fitting-out and workmanship. Essentially, the cause of this problem lies in the requirement for developers to compete for PSPS sites by tender generally on the basis of land premium payable to the Government, but the income to the developers is restricted to the guaranteed price of the flats produced as determined by the Authority. As such, there is a temptation for the developers to cut costs, sometimes at the expense of quality and workmanship, in order to maximise profit.

#### IMPROVEMENT MEASURES

8.3 To tackle the problem, and to cope with the rising expectations of purchasers on the quality and design of flats, the scheme was comprehensively reviewed in 1993. It resulted in the introduction of improvement measures in the following aspects :-

##### **Design and Fitting-out**

- (a) Upgrading of the wall and floor finishing for entrance halls and lift lobbies/with specified minimum level of illumination;
- (b) modifications of the plumbing installation from concealed to exposed type as well as the use of galvanised steel pipes with UPVC lining;
- (c) updating the fire resistance requirements for kitchen doors;

- (d) provision of drainage connection for air-conditioner openings;
- (d) supplementary Specifications to the General Specification of Materials and Workmanship for Soft Landscape Works; and
- (e) approved lists of play equipment and impact absorbing surfaces for the play area.

### **Control on Construction**

- (a) The requirement for the main PSPS building contractor to be registered under ISO 9000; and
- (b) to strengthen the monitoring surveyor's team with additional site staff including one Clerk of works, one Building Structural Inspector and one Building Services Inspector to enhance the monitoring of site works

### **Maintenance and Management**

- (a) Apart from the one-year defects liability period, developers are liable for scheduled defects, such as spelling and water seepage for a period of five years; and
- (b) carparking spaces could only be sold to owners at no more than one space per owner, remaining carparking spaces should be for use by residents and bona fide visitors.

The first PSPS project which came under the improved regime is the Wing Fai Centre in Fanling, which is scheduled for completion in mid 1996.

8.4 Initial assessment of the Wing Fai Centre project showed that the enhanced Monitoring Surveyor team has brought about a general tightening up of site work of the building contractor. Moreover, the restrictions introduced on the utilisation and disposal of carparking spaces would curtail speculative price level and complaints. A full assessment will be undertaken after the project is completed and the buildings occupied.



8.5 Apart from the changes set out in the above paragraphs, further tightening of control over construction was introduced in June 1995. These include -

- (a) the requirement for main building contractors for PSPS projects to be registered on the HA List of Building Contractors under Group NW2 of the Building (New Works) Category;
- (b) the requirement for lift contractors to have confirmed status in the HA List of Lift and Escalator Contractors under Group L, and/or Group E for all works relating to the installation and maintenance works; and
- (b) the establishment of an assessment system on contractor performances to provide feedback which is essential for up-dating the list of approved building contractors.

These changes were incorporated in tender specifications of the PSPS project in Tseung Kwan O Area 55, and would bring about a higher level of quality assurance.

## **OTHER INITIATIVES**

8.6 Apart from efforts to improve the construction and quality of the PSPS flats, consideration has also been given to alternative approaches to the Scheme, some of which were raised for discussion at the brain storming session of the HA on 4 November 1995. Those which warrant further consideration are briefly recapitulated in the following paragraphs.

### **PSPS projects to adopt HOS design**

8.7 In order to introduce improvements to the design of PSPS projects, consideration has been given to require developers to adopt HOS designs and specifications. This approach would enable future PSPS projects to be built to the HOS standard which is tighter than the current PSPS norm and would better meet purchasers' aspirations. Moreover, standardized design would facilitate project planning, programming, monitoring and quality control.

8.8 While such an approach has its merits, the loss of flexibility in overall design might not permit the optimum use of PSPS sites, and might result in a reduction of production volume. Moreover, it would reduce the opportunity of variable building designs permitted under the existing approach. This runs counter to the original intention to channel the experience and expertise of private sector developers in the production of assisted home ownership housing and raises question about the original purpose of PSPS and the differences with HOS. On balance, the option is not pursued.

### **A Mixed Development Approach**

8.9 Private residential housing has its attraction in terms of variety of design, more modern fitting-out, higher quality of finishes, availability of clubs/recreational facilities in the larger housing developments and the absence of "stigma" attached to subsidised housing. Consideration has been given to the means of making flats produced by private developers available for sale to prospective home buyers qualified for assistance under the HOS.

8.10 One possible option currently being pursued with relevant government departments is for Government to make available residential sites for tender by developers with the condition that the successful tenderer would have to make available a portion of the flats within the development for sale to eligible purchasers at PSPS prices. The flats for sale under the PSPS will be selected by Government on a stratified random basis. The quality and design of these flats will be exactly the same as other flats in the same development. Obviously, these flats would have to be of the right sizes for PSPS purposes. Since the developer would own the major proportion of the development, it would be in his interest to ensure its quality and workmanship.

8.11 This approach would provide PSPS flats which are of the same standard of design and construction as those in private housing developments, as well as the same standard of management services.

8.12 This approach will require a change in land grant conditions by the Government, and will have an impact on the premium payable on the site involved which are outside the ambit of the HA. Therefore, the HB is taking a lead in its development. An ad hoc group, involving the relevant policy branches and departments, including HD, has been set up by the HB for the purpose.

## CHAPTER 9

### SALE OF FLATS TO SITTING TENANTS SCHEME (SFSTS)

#### BACKGROUND

9.1 The HA initiated a pilot scheme to sell PRH flats to sitting tenants in August 1991. The main features of the scheme include a selection of 11 PRH blocks (about 6,900 flats) of Trident and Linear design of about five years old for sale to sitting tenants. Prices were set using the normal HOS formula but the market value of the flats was discounted by about 10% before the application of the usual HOS discount (at 35% in 1991). HOS resale restrictions were applicable to transactions. The Authority would arrange for all reported defects to be repaired and be responsible for such repairs for one year after their completion. Sale would only proceed if more than 50% of the tenants in a block indicated firm interest to buy.

9.2 Responses to the scheme were disappointing. The overall application rate was only 7.4% of the total number of flats on offer. Application rates of individual blocks ranged from 1.6% to 15.3% with none of the eleven blocks achieving the target acceptance rate. As a result, sale did not proceed.

9.3 The poor response was attributable to the following factors -

- (a) prices were set too high. Tenants were concerned about their ability to meet mortgage repayment;
- (b) tenants were concerned about the physical conditions of the flats and that they might have to shoulder high maintenance commitment after purchase; and
- (c) in reality, there was very little incentive to buy because tenants enjoy a high degree of security of tenure in the rental flats. The increase in housing expenditure as a result of the purchase would not bring with it a corresponding improvement in living conditions.

9.4 It was concluded that in order for the scheme to have reasonable prospect of success, prices would have to be lower and some other features of the scheme would have to be modified.

9.5 The Authority re-examined the scheme in 1992 with a view to improving its attractiveness. As a result, a modified scheme was proposed. The major changes included a new pricing approach which took into consideration the depreciated replacement costs, the land cost and the locational differences of the blocks. This method produced prices in the region of 80-85% discount on the market value of the flats. Owners could only sell back to the Authority at the original price in the first ten years. Thereafter, they could sell in the open market after payment of premium. Sale would proceed if more than 30% of the tenants in a block indicated firm intention to buy.

9.6 In the event, the revised proposal did not have the support of the Government because the proposed terms of offer were not considered sufficiently attractive to achieve a high take-up rate, and that the proposed 30% threshold could lead to problems of management in a mixed ownership situation. As a result, the scheme was not pursued further.

## **PRESENT POSITION**

9.7 While there was no further development on the SFSTS since 1993, it was suggested at the LegCo motion debate on the HOS in May 1995 that the scheme should be resuscitated. Interest in the scheme gathered momentum, following publication of the consultation document on "Safeguarding Rational Allocation of Public Housing Resources", and LegCo moved a motion on 7 February 1996 urging the Government to proceed with the sale of public housing rental units to sitting tenants as soon as possible.

9.8 Although Members of the LegCo are unanimous in their support of a scheme to sell public rental housing flats to sitting tenants, their views on pricing and future maintenance of flats sold under the scheme were diverse. In his response at the motion debate, S for H undertook to examine the idea in the current review of the LTHS.

9.9 The difficulties of the scheme identified in 1991 remain a concern. Nevertheless, the Department will work closely with the HB in its re-examination of the scheme.

## **CHAPTER 10**

### **SUMMARY OF IMPROVEMENTS INTRODUCED AND RECOMMENDATIONS**

#### **Recommended Measures to Promote Home Ownership Among CRP Tenants**

- (1) Depending on the level of interest to buy to be ascertained through a survey, some of the reception PRH blocks would be offered for sale to CRP tenants (pares. 3.4 to 3.5).
- (2) CRP tenants purchasing transfer block flats would be granted a mortgage subsidy to assist them in meeting mortgage repayment in the first three years. However, the subsidy would not be available to well-off tenants. It is for consideration whether both market rent and additional rent paying households should be excluded. The mortgage subsidy would cost HA about \$160,000 for each flat sold (pares. 3.20 to 3.23; and 3.26).
- (3) One option is for the flats in the transfer block not taken up by CRP tenants to be sold to PRH tenants living in estate in the same district which are within ten years old. It is for consideration whether the mortgage subsidy should also be available to these purchasers (pares. 3.24 and 3.28).
- (4) As an alternative to (3) above, reception PRH blocks will be transferred for sale only if the flats could be fully taken up by CRP tenants (pare. 3.25).
- (5) The above proposals should be incorporated in the LTHS review currently undertaken by the Housing Branch and form part of the LTHS review's public consultation exercise (pare 3.31).

#### **Recommended Resale Restrictions Regime**

- (6) Owners would have to sell their flats to HA at original prices during the first three years from first assignment (pare. 4.4).
- (7) Owners could sell their flats to HA at prevailing HOS prices in the fourth to tenth years from first assignments.

- (8) Owners would be able to sell their flats in the opening market subject to payment of a premium proportionate to the original discount after ten years from first assignment (para. 4.5).

### **Proposed Introduction of A Secondary Market**

- (9) In parallel with (7) and (8) above, owners of HOS/PSPS flats in the fourth year from first assignment onwards might sell their flats at a negotiated price to PRH tenants and to those who are eligible for PRH. Sitting tenants will be required to release their rental flats on completion of purchase (para. 4.7).
- (10) The schedule to the Housing Ordinance would have to be amended to give effect to the proposed resale restriction regime and to enable the operation of the secondary market. The secondary market might have an impact on the premium proceeds receivable by HA in that some of the HOS/PSPS which could have been sold in the open market might move to the secondary market where no premium was payable on transaction. However, it is not possible to ascertain the extent of the impact at this stage (paras. 4.19 to 4.22).

### **Pricing and Mortgage Arrangements**

- (11) It is recommended that the current pricing formula will continue to be applicable (paras. 5.12 and 5.13).
- (12) The Department will continue to explore the possibility of more flexible mortgage arrangements including longer mortgage period, and stepped-up mortgage payment level etc (paras. 5.15 to 5.17).

### **Design and Quality Assurance**

- (13) Quality assurance systems for HOS buildings both at the design stage and during construction (vice PASS and BSPASS) have been implemented. These systems are continually being up-dated in response to changing circumstances.

- (14) It is recommended that the Department should undertake a pilot project designed to provide purchasers with some choice on fitting and finishes in order to better assess feasibility, and implications on programming and contract prices (para. 6.24).

### **Maintenance Responsibilities**

- (15) It is recommended that consideration should be given to extend the warranties provided by contractors to cover items such as water proofing, plumbing and drainage, and external works etc. However, this might have implication on contract prices the extent of which could not be ascertained at the moment (para. 6.21).
- (16) It is recommended a handbook setting out what owners should pay special attention to in home decoration should be prepared (para. 6.33).

### **Timely Completion of Flats**

- (17) Instruction to improve standard designs in the course of a contract will no longer be issued unless they are required for safety and security, in order to minimise delay to the completion of HOS projects. Moreover, emphasis will be placed on progress of contract in evaluating the performance of contractors (paras. 6.29 and 6.30).
- (18) Standard ASP for sale of HOS flats has been amended in May 1995 to provide a new formula for computation of ex-gratia payment for delay in completion of flats and to stipulate a more restrictive set of circumstances under which EOT for completion of flats could be granted. These offer better protection to HOS buyers against delay in completion (paras. 6.31 and 6.32).

### **Management**

- (19) A five-year programme of transfer to agency management for HOS estates currently managed by HD has been endorsed by HOC. With the cooperation and support of owners, the programme may be completed earlier (para. 7.7).

- (20) To motivate owners to take greater interest in managing their own properties, the CL will be changed to the effect that the Authority will in future manage HOS estates for 12 months after completion of the building, and the DMC will provide a requirement for owners to form OC within one year to take on the management responsibilities (pares. 7.10 to 7.12).
- (21) It is recommended that maintenance manuals on major and essential maintenance items tailored to the requirement of the HOS estates should be prepared to assist owners to manage their properties effectively (pare. 7.13).

### **Private Sector Participation Scheme**

- (22) A series of improvements has been introduced to the PSPS after the review in 1993. The first project under the revised regime will be completed in mid 1996 when a full assessment on the effectiveness of the improvement measures will be made.
- (23) Further measures to tighten up the control of construction with particular reference to the appointment of building and lift contractors, as well as the establishment of an assessment system on contractor performances have been introduced in June 1995.
- (24) Under the lead of the Housing Branch, the Department is working closely with other government branches and departments to develop a new approach whereby PSPS flats could be provided in private residential developments (pares. 8.9 to 8.12).

### **Sale of Flats to Sitting Tenants**

- (25) The Department will be working closely with the Housing Branch in its re-examination of the SFSTS in the context of the LTHS Review (pares. 9.7 to 9.9).



**Summary Of LegCo Members' Comments  
made at the Motion Debate on 17 May 1995**

***Housing Policy***

1.1 It is important to define the strategic position of the home ownership schemes in the overall housing policy. The schemes should play a role that complements with future economic and political developments. Government should allocate more land to meet demand. The \$25,000 income limit is too low as it is questionable whether those with income above this limit can afford private housing.

1.2 The balance between public rental housing (PRH) and home ownership schemes (HOS) flats will change in the next few years towards the construction of more HOS flats at the expense of PRH flats. However, resources reserved for PRH should not be reallocated to HOS as there is greater demand for PRH flats than HOS flats. The review of housing demand should be a thorough and conceptual review and must not assume that present policies cannot be changed.

1.3 Government should continue to subsidise HA so that its policies would not be constrained by availability of resources, otherwise the public would suffer. Housing strategy should be public sector-led instead of private sector-led. In order to resolve the housing problem of the lower income group and to shorten the public housing waiting list, HA should speed up the construction of rental housing flats and slow down the construction of HOS flats.

1.4 The reactivation of the Sale Of Flats To Sitting Tenants Scheme (SFSTS) has been proposed. The scheme would increase the chances for people to purchase flats without increasing Government resources. HA should sell high quality and newer flats to tenants.

1.5 HA should also encourage tenants of older estates to buy HOS flats which would release rental housing units for allocation to households on the waiting list.

1.6 Housing is a basic human right. Shortage in the supply of HOS flats would not satisfy people's needs. Because of the balloting system, there is a lack of certainty for the purchase of HOS flats. Opportunity for white form applicants is too limited.

### *Quality*

2.1 Increasing numbers of complaints by HOS buyers showed that HA has sacrificed quality for quantity. Rusting water pipes, seepage and spalling concrete were common defects reported. Reasons for poor quality included the award of contract to the contractor who submitted the lowest tender, and monitoring a construction work was inadequate. As a result, contractors tend to give higher priority to other contracts in hand thus resulting in delay to HOS projects.

2.2 HA should ensure the quality of HOS by reviewing the tendering system and the construction process of HOS developments. Close supervision and heavy penalty should be introduced to prevent the delay in completion of flats. To ensure the quality of the HOS flats, a maintenance team should be set up during the intake period in each development to undertake remedial work on defects reported. Maintenance period of HOS flats should be extended to over one year.

2.3 Quality of PSPS flats is poor. There are numerous complaints on poor quality which include road subsidence, cracks on walls, water leakage, drainage, as well as breakdown of lifts. Poor quality is due to the tendering system whereby developers are tempted to sacrifice quality to maximise profits. The result is that PSPS flats have become second-class HOS flats.

2.4 Information provided in sales brochures of HOS/PSPS flats should be unambiguous. Finishes and fittings described in the brochures must be provided accordingly and without unilateral changes. Purchasers should be fully compensated for any delay in completion of the HOS/PSPS flats.

2.5 HA should monitor closely progress of HOS construction. As for PSPS, apart from close monitoring, tenders should not be evaluated based on the

price alone, past performance of the tenderers should also be taken into account, those with bad performance record should be blacklisted from future tender.

### *Pricing*

3.1 HA has made a huge profit out of HOS, comparable to those made by private developers. Some kind of profit restriction should be established. Selling prices should recover costs plus a reasonable profit to ensure the HOS to continue. Proceeds from HOS sales should not be drawn on to finance constructions and capital investments. HA should review the pricing of HOS flats, the relation between revenue from HOS sales and HA finances, and the Government's share in the responsibility for public housing.

3.2 While HOS prices with the upward trend in the private domestic property market, they did not fall with it, at least not to the same extent. As HA enjoyed a huge profit from the sale of HOS flats, prices should be reduced.

3.3 HOS flat prices should not exceed the affordability of the largest group and it is not reasonable that prices are 'pegged' to open market prices. Although HA claimed that the prices of HOS flats are not linked to market prices, however, prices are always set at a discount to market prices. The average price for HOS flats is set at an MIR of 40%. Nevertheless, some purchasers spend 40% to 70% of their household income on the mortgage repayment. In order to lessen the burden of purchasers, HA should to drastically reduce the prices of HOS flats by at least 66%. The amount of housing expenditure should be 20% of the total household income.

3.4 PSPS developers are private developers whose primary aim is to make profits. Efforts to maximise profit would result in poor quality and workmanship. They also attempted to make as much profit as possible from carpark and commercial complex. HA should review the 'whore system'. Prices of carparks in PSPS developments are fixed by developers and are usually very high. Carpark price and shop rents should be similar to HOS level.

3.5 HOS flat owners should, when they want to sell their flats after the 10-year resale restriction period, be required to pay HA the difference in the original purchase price and the original market price, plus inflation, or the difference between the original purchase price and the current market price, whichever is the less.

## *Management*

4.1 HA should provide good management for HOS courts, whether directly or indirectly through private management agents (PMAs). For directly managed HOS courts, many problems emerged because these HOS premises are usually managed by the housing managers of neighbouring rental housing estates. Performance depended on the diligence and enthusiasm of the housing manager. As for HOS courts managed by PMAs, management standard are usually higher but owners have to pay a higher management fee. Expenditures of PMAs are sometimes unreasonable because of excessive staff size. Other problems include uncooperative attitude of PMAs in facilitating residents' activities.

4.2 HA should consider giving up privatisation of property management, in cases where in-house resources are insufficient and privatisation of management is unavoidable, performance of PMAs should be closely monitored. HD was criticised for not handling owners' complaints against PMAs properly.

4.3 Maintenance is needed in many HOS/PSPS courts over 10 years. Nevertheless, HA has refused to carry out maintenance works on the pretext that not 100% of the owners agreed to the maintenance work. While owners are charged professional management fees, they are not getting professional management services. Increase in management fees also exceeds rate of inflation.

4.4 For PSPS projects, management responsibilities between HA, the developer and the management company are often unclear. Management responsibilities should be clearly defined to avoid misuse of common area.

## Mortgage Subsidy Scheme

(i)	(ii)	(iii)	(iv)	(v)=(iii)-(iv)
Flat Price	Payment Method	Normal Mortgage Arrangement	Mortgage Subsidy Scheme	
		Mortgage Payment to Bank	HA's Subsidy	Owner's Actual Payment
1.2M	Down payment	60,000		60,000
	Mortgage Loan	1,140,000		1,140,000
	Year 1 Monthly payment	10,626	6,000	4,626
	Year 2 Monthly payment	10,626	4,500	6,126
	Year 3 Monthly payment	10,626	3,000	7,626
	Year 4-20 Monthly payment	10,626		10,626
	HA's Subsidy			162,000
	Benefit to Buyer			138,200
1M	Down payment	50,000		50,000
	Mortgage Loan	950,000		950,000
	Year 1 Monthly payment	8,855	6,000	2,855
	Year 2 Monthly payment	8,355	4,500	4,355
	Year 3 Monthly payment	8,855	3,000	5,855
	Year 4-20 Monthly payment	8,855		8,855
	HA's Subsidy			162,000
	Benefit to Buyer			138,200
0.8M	Down payment	50,000		40,000
	Mortgage Loan	950,000		760,000
	Year 1 Monthly payment	7,084	6,000	1,084
	Year 2 Monthly payment	7,084	4,500	2,584
	Year 3 Monthly payment	7,084	3,000	4,084
	Year 4-20 Monthly payment	7,084		7,084
	HA's Subsidy			162,000
	Benefit to Buyer			138,200

**Mortgage Payment Subsidy  
Financial Implication (\$ Million)**

	Effect On Cash Flow	Cost To HA
96/97	-73.68	-73.68
97/98	-145.78	-145.78
98/99	-226.09	-226.09
99/00	-265.65	-265.65
00/01	-185.09	-185.09
01/02	-114.42	-114.42
02/03	-66.71	-66.71
Total	-1,077.42	-1,077.42

The financial implication is estimated on the basis of the following assumptions: -

- (1) The financial incentive will be available to CRP tenants from 96/97 onward.
- (2) The average price of HOS flat is \$1Million.
- (3) Take up rates at 960, 1116, 1440 and 1440 (i.e. at 12% of CRP tenants for the years 96/97, 97/98, 98/99, 99/00 - the remaining years of the current CRP) respectively.

**Fix Sum Discount at \$919,000 per flat**

	<b>Full Market Value</b>	<b>Current Formula (at 45% discount)</b>	<b>Fix Sum Discount at \$919,000</b>	<b>Percentage Discount</b>
<b>Urban 3740 flats</b>	<b>\$2,202,000</b>	<b>\$1,211,000</b>	<b>\$1,283,000</b>	<b>42%</b>
<b>Sub- urban 3040 flats</b>	<b>\$2,036,000</b>	<b>\$1,120,000</b>	<b>\$1,117,000</b>	<b>45%</b>
<b>N.T.  1350 flats</b>	<b>\$1,611,000</b>	<b>\$886,000</b>	<b>\$692,000</b>	<b>57%</b>
<b>8130flats</b>	<b>\$16600M</b>	<b>\$9130M</b>	<b>\$9130M</b>	

PERFORMANCE  
ASSESSMENT  
SCORING  
SYSTEM



## **An overview on Quality Assurance**

### **In Construction:**

- Selection of Contractors

1. The Housing Department is responsible for the quality of construction as well as the design of the works.
2. The Housing Department selects suitable contractors for the works. Only contractors who are in the Authority's Lists and who are certified to ISO 9000 are now eligible to tender for the Authority's building contracts.
3. The department manages the Authority 's Lists and monitors the performance of the Contractors.

- Contract Administration and Site Inspection

4. The Contractor is bound by the Conditions of Contract to construct and complete the work in accordance with the laid down contract requirements.
5. The Contractor is responsible for delivering the end product in accordance with the contract requirements. The Contractor provides full time supervision of their workmen and the work on site.
6. The department maintains regular inspection to ensure that the required quality standard is achieved.
7. For every project under construction, the department provides site inspection team to regularly inspect the work. The department's project professionals (i.e. Architects, Engineers, etc.) are also required to visit the site periodically.
8. Well established inspection procedures and guidelines are clearly spelled out in the department's Quality Management Manuals.
9. This enables items of work to be checked at each and every stage, and requires corrective action to be taken before the work is completed.

- Performance Monitoring and List Management

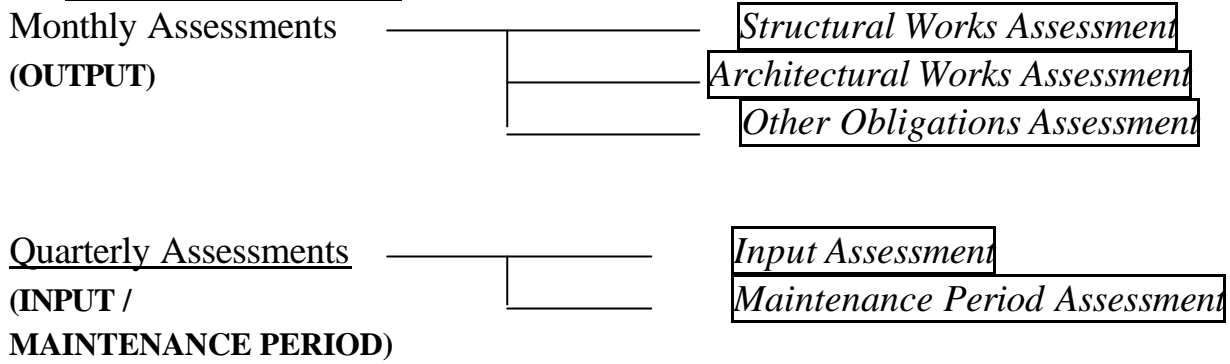
10. In addition to the above, Contractors are listed in the order of their performance based on the Performance Assessment Scoring System (PASS).
11. Depending on the PASS scores, Contractors are given greater or lesser opportunities to tender. Contractors who do not perform well stand the chance of being suspended from tendering or removed from the Authority's Lists.

## 1.PASS OBJECTIVES

<p>PERFORMANCE ASSESSMENT SCORING SYSTEM</p> <p>DEVELOPED SINCE 1990 ON AN INCREMMENTAL APPROACH</p>	<ol style="list-style-type: none"><li>1. An objective assessment of the quality performance of contractors.</li><li>2. A measure to facilitate management of the Housing Authority's list of Building Contractors for New Works.</li><li>3. Encourage Contractors to improve performance.</li></ol>
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## 2. SYSTEM FRAMEWORK

### 2.1 General Framework



### 2.2 PASS Assessments in a Typical Building Contract

### 3. PASS OUTPUT ASSESSMENT

#### 3.1 General

- It measures a Contractor's compliance with workmanship specification and general obligations under the contract.
  
- It is assessed at monthly intervals by project team, assisted by site staff, in the presence of the Contractor's site representatives
  
- The assessment is based on :-
  - \* Inspection check against specified quality standards conducted on randomly selected locations and spots.
  - \* Record check against routine inspection records
  
- The **P A S S** Monthly Output Assessment is divided into three aspects, namely:
  - \* Structural Works Assessment
  - \* Architectural Works Assessment
  - \* Other Obligations Assessment

### 3. PASS OUTPUT ASSESSMENT

#### 3.2 STRUCTURAL WORKS ASSESSMENT

The assessment of Structural Works consists of nine factors and can be classified into three stages. They are: -

<u>Factor:</u>	<u>Stage:</u>
SW1 Working Pile SW2 Completed Pile	Piling Works
SW3 Substructural Formwork and Formation SW4 Substructural Reinforcement and Concreting SW5 Substructural Finished Concrete	Substructural Works
SW6 Formwork and Falsework SW7 Reinforcement and Concreting SW8 Finished Concrete	Structural Works
SW9 Construction Quality and Practice	At all stages

### **3. PASS OUTPUT ASSESSMENT**

#### **3.3 Architectural Works Assessment**

Architectural Works Assessment covers component and finishing works. They are assessed according to the progress of works, in sequence and in parallel, throughout the construction period. The Architectural Works Aspect consists of the following factors:-

AW 1	Floor
AW2	Internal Wall
AW3	Internal Wall Finish
AW4	External Wall Finish
AW5	Ceiling
AW6	Window Opening
AW7	Window
AW8	Plumbing
AW9	Components
AW10	Spatterdash
AW1 1	Waterproofing
AW 12	Precast Components
AW13	Shop Front
AW14	Watertightness Test to Windows
AW 15	Watertightness Test to Bathroom/ Washroom/Balcony
AW16	Watertightness Test to Precast Facade
AW17	Builder's Work
AW18	Earthwork
AW 19	External Drainage
AW20	Roads/Emergency Access
AW21	Footpath/Pedestrian Areas

### 3. PASS OUTPUT ASSESSMENT

#### 3.4 Other Obligations Assessment

Other Obligations Aspect consists of two main categories, with a total of five factors :-

- |     |                       |  |
|-----|-----------------------|--|
| (A) | Site related factors  | 001 General Site Safety                          |
|     |                       | 002 Site Security, Access and Building Materials |
|     |                       | 003 Health and Other Obligations                 |
| (B) | Block related factors | 004 Cleanliness and Care of the Finishing Works  |
|     |                       | 005 Block Related Safety                         |

#### 4. PASS INPUT/ MANINTENANCE PERIOD ASSESSMENT

- It measures a Contractor's site management, coordination and progress against defined standards during construction and maintenance periods.
- It is assessed at quarterly intervals, conducted by having a formal meeting on site attended by the whole project team including site staff, chaired by the Project Architect in the presence of the Senior Architect.
- The assessment is based on record checks. Some specified items are scored by demonstration of compliance, whilst the remaining items are scored by evidence of non-compliance.
- Input Assessment consists of six aspects :-
  - Part 1 Management & Organization of Works
  - Part 2 Resources
  - Part 3 Coordination & Control
  - Part 4 Documentation
  - Part 5 Programming & Progress
  - Part 6 Completed Works After Sectional Completion
- Maintenance Period Assessment consists of three aspects :-
  - Part A Outstanding Works
  - Part B Execution of Works of Repair
  - Part C Management, Response & Documentation



## MAJOR IMPROVEMENTS IN 1996 EDITION OUTPUT ASSESSMENT-

### Improvements :-

1. Streamline assessment procedures
2. Cover assessment of works done on site comprehensively
3. Differentiate varied degree of contractors' compliance with standards
4. Optimize use of computer to further improve efficiency and enhance consistency

### Changes:-

- Merge Domestic and Non-domestic Block Assessment.
- Remove double sampling rate for large contracts
- Reduced number of locations/ spots sampled for assessment
- Assimilate external works assessment into architectural works assessment
- Remove quarterly assessment of external elements
- Factor based assessment changed to sub-factor based assessment
- Intermediate work stages to be assessed
- Focused random sampling of specific location/spots.
- Change score methodology of Structural/ architectural Works Assessment from "tick", "cross", "pass", and "fail" to graded assessment i.e. **A+**, **A**, **B**, **C**, **D**, **E** and **N**.
- Display progress record in a graphical Format with computerized input of data
- Generate block /locations by random sampling according to progress record automatically
- Produce sampling record by computer.