

**HOMES FOR
HONG KONG PEOPLE:
THE WAY FORWARD**

**LONG TERM HOUSING
STRATEGY REVIEW
CONSULTATIVE DOCUMENT**

JANUARY 1997

Preface by Dominic S.W. Wong, OBE, JP, Secretary for Housing

When I started the review of our Long Term Housing Strategy at the beginning of last year, I was under no illusions about the complexity of the task. Housing is one of Hong Kong's great success stories. In a matter of a few decades, we have changed from a community living for the most part in inadequate and often appalling accommodation, to one in which the large majority of the population is decently housed. We have steadily improved the quality of our public housing programme until it has become a model for other cities and territories. Home ownership, though still low by international standards, has passed the 50% mark. Private developers have invested massively in producing flats for nearly a million households.

2. But the problems are equally obvious. We face a growing population in a limited land area; the rising aspirations of a community which rightly expects better standards than before; long queues for public rental housing; unsatisfied demand for home ownership; a growing number of elderly people, with the special problems this brings; and the risks of property speculation.

3. Since the 1970's, the Government has adopted a consistent approach to these problems. Our philosophy was first codified in the 1987 Long Term Housing Strategy and has not significantly altered. In particular, the Government's commitment to help those

in genuine need is as strong as ever. It is the foundation on which our housing policy rests.

4. Some 2.4 million people now live in public rental housing. This housing programme represents an enormous social achievement. This year, Hong Kong marked up an additional achievement in the housing field. Over half of our population now own their own homes, a third more than ten years ago. More than half of Hong Kong's families have been freed from the cycle of paying rents, whether to private landlords or public agencies. Instead they have invested in an asset which can be passed from one generation to the next; they have become stakeholders in the community. This further achievement does not mean that we can become complacent. But it does suggest new possibilities.

5. It suggests that our housing policies have been fundamentally correct. Subsidised rental accommodation has not only provided shelter, but has also enabled many families to prosper. For many families public housing has been a stepping stone to ownership. The introduction of a subsidised Home Ownership Scheme in 1978 facilitated this process. Home ownership is not a dream for the many and a privilege for the few. Rather it is something to which the majority of our community can aspire.

6. This does not mean that the Government can suddenly stop building public rental housing. On the contrary, we must continue to provide public rental housing for as long as there are people who genuinely need it, either now or in the future.

7. While continuing to provide for those in genuine need of shelter, we should also do more to encourage families to own

their own homes. After all, every family that moves from public rental housing into a home ownership flat frees up a public rental flat for another family more in need. Measures recently introduced by the Housing Authority to identify better-off tenants and to persuade them to part with the public rental flats which they no longer merit are a step in the right direction. In time, it may be possible for us to contemplate public rental accommodation as ultimately a finite stock, and one which will gradually reduce relative to privately owned homes.

8. We welcome views from all sections of the community on the proposals set out in this consultative document. Some may feel that we have not gone far enough in putting forward radical solutions to the challenges which lie ahead. Others may feel that some of our proposals are too radical. We will take into consideration all views expressed. At the end of the day, we will need to take hard decisions on the difficult issues we face. In particular, we will need to decide how best to help those really in need of basic housing; how to ensure the most equitable use of the huge resources invested by the community in subsidising our public rental housing programme; and how we can help families to meet their increasing aspirations to own their own homes.

9. There are other subsidiary but important issues on which we also need to take decisions, for example, the special needs of the elderly. There are technical questions on land supply and the streamlining of procedures. We also welcome ideas from the private sector on how they may be more actively involved in helping to meet the housing needs of the community.

10. In producing this document, I have been ably advised by a Steering Group composed of a wide spectrum of individuals with a deep interest in and knowledge of housing matters. I have benefited enormously from their advice, and am most grateful for their contributions in terms of time, patience and experience.

11. I would also like to thank those members of the Legislative Council, the Housing Authority and various community organisations who, during the course of the review, wrote to or discussed ideas with me and my colleagues.

12. Finally, I should emphasise that this is a strategic document. It is not intended to tackle short-term problems, such as the recent concern over speculation in residential property, particularly in the luxury flats market, but rather to address the longer-term, strategic issues we face. Inevitably the document omits a great deal of detail. The methods of implementing and the financial implications of many of the proposals will need further work within the Administration, in consultation with the Housing Authority and the Housing Society.

13. To help us reach final conclusions on the way forward, we welcome your comments.

(Dominic S.W. Wong)
Secretary for Housing

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EXECUTIVE SUMMARY

Our housing goals

The Government's key housing goals are -

- (a) to help all households gain access to adequate and affordable housing; and
- (b) to encourage home ownership in the community.

2. The overall strategy by which we seek to achieve these goals is -

- (a) to provide a steady and sufficient supply of land, together with supporting infrastructure, for public and private housing;
- (b) to create the conditions to enable the private sector to make the fullest possible contribution towards meeting the demand for housing;
- (c) to implement subsidised housing schemes to enable those in the relevant income groups to buy their own homes;
- (d) to provide quality public rental housing at reasonable rents for those who cannot afford any other type of housing; and
- (e) to monitor the private housing market and, where necessary, introduce measures to curb speculation.

The future challenges

3. We believe that this continues to be the right policy for Hong Kong. However, we also believe that we should review from time to time our success in achieving our goals so that we may be able to respond more effectively to the changing needs and aspirations of the community. We have now completed a review of the policies and programmes which underpin the Government's housing strategy. We have concluded that there are four areas where we need to focus our attention in particular if we are to be better able to achieve our goals in future. The challenges we face are -

- (a) to increase the supply of flats to meet forecast demand for housing, in particular by providing a steady and sufficient supply of serviced land;

- (b) to maximise the contribution of the private sector towards meeting the demand for public and private housing;
- (c) to encourage wider home ownership, especially among public housing tenants; and
- (d) to ensure that public rental housing is provided to those in genuine need.

4. A list of our specific recommendations is annexed to this Executive Summary. The main proposals are highlighted below.

Increasing flat supply

5. The first step in providing an adequate supply of flats in both the public and private sectors is to assess the demand for housing. This involves the running and re-running of a computerised housing demand model, which will respond to changes in population, housing policy, economic conditions and other relevant factors.

6. The model operated by the Government's Working Group on Housing Demand currently indicates a requirement for about 80 000 new flats on average a year over the 11-year period from April 1995 to March 2006 : some 85 000 flats in the first part of the period (April 1995 to March 2001), and 73 000 flats in the second part (April 2001 to March 2006). We have already allocated or identified sufficient land to meet the forecast requirement for the first part of this period. For the second part, we have assumed, as reflected in the Territorial Development Strategy Review, a requirement for 78 000 flats a year (which provides a safety margin of about 7% on the forecast requirement for the period). To meet this requirement, we will need to pursue the early development of new strategic growth areas, and, where feasible, the rezoning of existing land. We will also need to increase, where possible, development density to make better use of existing housing sites.

7. In addition to new development, we will need to monitor carefully the extent and speed of redevelopment in the public and private sectors. We will also need to monitor, and, where necessary, take measures to deal with supply constraints other than land, in particular the capacity of the construction industry.

Maximising the contribution of the private sector

8. Higher private sector investment in housing reduces the gap between supply and demand, and lowers the pressure on domestic property prices. We wish to encourage such investment by easing any supply constraints especially of land and labour, by streamlining and speeding up Government procedures for the approval of private housing projects and by applying these procedures flexibly and pragmatically.

9. We also wish to maximise the potential contribution of the private sector towards delivering our public housing programmes. In addition to the existing Private Sector Participation Scheme, we propose that new forms of “mixed development” should be used to produce an increasing proportion of subsidised home ownership flats. A feasibility study and pilot scheme will be necessary to determine in detail how this new joint venture concept will operate.

10. While seeking to make the fullest possible use of the resources and abilities of the private sector in fulfilling our housing policy objectives, we will also continue to monitor the operation of the private housing market and to take steps, where appropriate, to ensure adequate consumer protection.

Encouraging wider home ownership

11. The Government’s goal is to encourage home ownership in the community. Home ownership helps to foster social stability and a sense of belonging, and to provide personal financial security.

12. Since home ownership in the private sector remains beyond the reach of many families, the Government has implemented a series of carefully targeted subsidised home ownership schemes for middle and lower income families. As a result, the home ownership rate has increased by one third over the past ten years to just over 50% today. We believe that the Government’s housing delivery agents - the Housing Authority (HA) and the Housing Society - should continue to operate and, where possible, expand these successful schemes. We will shortly seek the approval of the Legislative Council for a further injection of funds into the Sandwich Class Housing loan scheme to help more families to buy their own homes.

13. At the same time, we believe that we should do more to help and encourage public housing tenants in particular to become home owners. By doing so, we not only improve the living standards of those

concerned, we also increase the supply of public rental flats for re-allocation to families in greater need. In this way, we help to meet both the demand for home ownership, and the demand for public rental housing. Accordingly, we propose to allow public housing tenants to apply for the purchase of Sandwich Class Housing flats on equal terms with families living in private housing; to invite the HA to consider widening its existing scheme to transfer new rental blocks to the Home Ownership Scheme for sale to existing and qualified prospective public housing tenants, with the additional benefit of a monthly mortgage subsidy for tenants affected by the Comprehensive Redevelopment Programme who choose to buy new rental flats in reception estates; and to invite the HA to work out the details for a new scheme to sell suitable existing rental flats to public housing tenants at affordable prices.

14. We support the establishment of the Mortgage Corporation which will help banks and other lending institutions to provide an adequate supply of mortgage loans to help families wishing to buy their own homes.

Providing public rental housing for those in genuine need

15. The Government is firmly committed to providing adequate housing for those in genuine need. (Adequate housing does not have to be brand new flats.)

16. High on the public housing agenda is the need to improve the living conditions of those who are inadequately housed. To speed up the process, we propose to invite the HA to work out details to apply the same eligibility criteria to all prospective tenants, to minimise pre-emption by committed categories, and to restrict the grant of new tenancies, upon the death of the principal tenant, to those adult members of the deceased tenant's family who have a genuine need. We also propose that the HA should consider increasing rents gradually to more realistic but still affordable levels, while at the same time ensuring that its existing Rent Assistance Scheme continues to provide adequate assistance to families facing genuine hardship.

17. We will continue to encourage families who are inadequately housed to come forward and register on the Waiting List. We also highlight guiding principles for interim housing and clearance policy, and new initiatives to provide housing for the elderly.

Annex to Executive Summary : list of recommendations

Increasing flat supply (Chapter 3)

- To update regularly projected flat requirements, using the model operated by the Working Group on Housing Demand (paragraph 3.7).
- To look at opportunities, subject to an assessment of infrastructural capacity and environmental impact, to increase land supply for housing by -
 - (a) rezoning land in selected locations, previously designated for industrial or unspecified community uses, which are surplus to requirements;
 - (b) identifying potential new development sites on the periphery of planned or developed urban areas to which new roads and infrastructure could be extended without undue difficulty; and
 - (c) redeveloping suitable old flatted factory estates of the Housing Authority (HA) (paragraph 3.13).
- To explore options to increase the density of development in -
 - (a) comprehensively designed new development areas where existing community services and infrastructural capacity permit; and
 - (b) individual residential sites which have spare capacity (paragraph 3.14).
- To speed up housing production by continuing -
 - (a) to act efficiently and effectively through the Housing Project Action Team to remove bottlenecks in the production of new flats;
 - (b) to look at further ways to improve and speed up procedures for the approval of housing projects and related land transactions; and
 - (c) to ensure that housing related infrastructure projects, such as water supply, sewerage and transport links, are funded and completed in good time (paragraph 3.16).

- To continue to make every effort to utilise fully the permitted development density in both new and redeveloped HA (and Housing Society estates), in particular through the design and layout of the blocks on individual sites (paragraph 3.20).
- To monitor the capacity of the construction industry and, if necessary, to take early measures in consultation with the Construction Advisory Board and the Construction Industry Training Authority, as appropriate, to alleviate any specific constraint which may arise (paragraph 3.21).

Maximising the contribution of the private sector (Chapter 4)

- To take all reasonable steps to streamline and speed up Government procedures for the approval of private housing projects and related land transactions, and to apply these procedures flexibly and pragmatically (paragraph 4.4(b)).
- To provide, subject to a detailed feasibility study and a pilot scheme, an increasing proportion of subsidised home ownership flats by way of mixed development (paragraph 4.10).
- To continue to monitor the operation of the private housing market and to take action, where appropriate, to protect the interests of consumers (paragraph 4.14).

Encouraging wider home ownership (Chapter 5)

- To continue to operate the Home Purchase Loan Scheme as a flexible and cost-effective means of encouraging home ownership (paragraph 5.8).
- To invite the HA to consider widening its existing “transfer block” scheme to provide more opportunities for home purchase among both existing and qualified prospective public housing tenants, subject to both demand and available supply (paragraph 5.15).
- To support the HA’s proposal to provide a monthly mortgage subsidy to Comprehensive Redevelopment Programme tenants during the first three years who choose to buy new rental flats in reception estates (paragraph 5.16).

- To allow public housing tenants to apply for the purchase of Sandwich Class Housing flats on equal terms with families living in private housing(paragraph 5.20).
- To invite the HA to work out the details for a new scheme to sell suitable existing rental flats to public housing tenants at affordable prices (paragraphs 5.24).

Providing public rental housing for those in genuine need (Chapter 6)

- To ensure that the allocation of public rental housing is based on genuine need, to invite the HA to work out details for arrangements -
 - (a) to require all prospective tenants to undergo a comprehensive means test, covering both income and net assets, before entry; and
 - (b) to offer interim housing to families displaced by clearance operations who fail the means test for a limited period of, say, one year, and to give them priority for the purchase of Home Ownership Scheme flats or the grant of Home Purchase Loan Scheme loans, subject to meeting the normal eligibility criteria (paragraph 6.13).
- To ensure that the continued enjoyment of public rental housing is based on genuine need, to invite the HA to work out details for arrangements -
 - (a) to require the adult members of a deceased tenant's family (with the exception of the surviving spouse) to undergo a comprehensive means test before the grant of a new tenancy, and, where necessary, to pay extra rent; and
 - (b) to require adult members who fail the means test to pay market rent and to allow them to remain as tenants for a limited period only (paragraph 6.15).
- To minimise the pre-emption of the supply of public rental flats, to invite the HA to consider -
 - (a) to confine any further redevelopment of HA estates, following completion of the HA's Comprehensive Redevelopment

- Programme in 2005, to selected blocks determined by need, and having regard to structural conditions and build-back potential;
- (b) to require applications for transfer which would involve the allocation of an additional flat to be made through the Waiting List;
 - (c) to make no further change to the current space allocation standards for public rental housing until outstanding demand on the Waiting List has been substantially met; and
 - (d) to require eligible households living in interim housing to register on the Waiting List in order to help ensure a more equitable allocation of public housing resources (paragraph 6.16).
- To ensure that public housing rents truly reflect tenants' ability to pay, to invite the HA to consider measures -
 - (a) to set and maintain rents for new public rental estates (of Harmony block design) at a level sufficient to achieve median rent-to-income ratios of 15% and 18.5% (for the relevant space allocation standard);
 - (b) to increase rents for existing public rental estates progressively to achieve and maintain median rent-to-income ratios of 15% and 18.5% (for the relevant space allocation standards), having regard to relative estate values, over the period to 2006; and
 - (c) to review and revise the existing Rent Assistance Scheme as necessary to ensure that adequate assistance continues to be available to those families facing genuine hardship (paragraph 6.21).
 - To provide suitable, small sites to the Housing Society for the construction of affordable housing for sale or rent to eligible elderly persons (paragraph 6.26).
 - To support the measures being taken by the HA to increase the supply of small public rental flats for allocation to eligible single persons (paragraph 6.27).
 - To encourage the private sector to provide affordable housing to single persons, with priority being given to the elderly, and to welcome suggestions on how this may best be achieved (paragraph 6.28).

- To invite the HA to adopt, as guiding principles for clearance operations, proposals -
 - (a) to continue to encourage squatters and roof-top dwellers who are eligible for public rental housing to register on the Waiting List ;
 - (b) to continue to undertake squatter clearances to ensure public safety and to meet development needs, and to plan and co-ordinate clearances well in advance to ensure that sufficient rehousing resources are available;
 - (c) to explore the feasibility of clearing all the remaining Cottage Areas, subject to the availability of rehousing resources;
 - (d) to consider the feasibility of clearing all squatter areas on mixed lots in urban areas, subject to the availability of rehousing resources; and
 - (e) to continue to rehouse, in accordance with existing eligibility criteria, persons who are made homeless by the demolition of roof-top structures (paragraph 6.32).

- To support the HA's initiatives -
 - (a) to phase out existing, traditional Temporary Housing Areas as soon as possible, and, in the meantime, to improve their standards to provide residents with decent, hygienic accommodation;
 - (b) to provide interim housing as far as possible through the use of old public rental housing blocks on the fringe of the urban area; and
 - (c) to continue to examine the feasibility of other forms of interim housing (paragraph 6.36).

CHAPTER 1

INTRODUCTION

Background

1.1 In 1987, the Government announced its Long Term Housing Strategy (LTHS) for the period up to March 2001. During the past ten years, a great deal has been achieved under that strategy to improve the living conditions of the community. We now need to plan forward to meet our housing needs into the next century. In setting a course for the period up to March 2006, we must take stock of what we have already achieved and what we expect to achieve by 2001. But above all, we must seek to respond to the changing needs and expectations of the community in a way which ensures the efficient, effective and fair use of public resources.

Structure of the document

1.2 In the 1995 Policy Address, the Governor announced the Government's intention to review the LTHS. We have now completed the review. This document sets out our conclusions and recommendations for public consultation.

Structure of the document

1.3 Chapter 2 sets out our underlying housing policy goals and the basic policies we have followed to achieve them. Chapters 3 to 6 summarise our achievements so far under each of these basic policies, and point to the challenges and problems which we will face in the coming decade if we are to maintain and improve on our past record in the face of changing circumstances, under the following headings -

- (a) increasing flat supply (Chapter 3);
- (b) maximising the contribution of the private sector (Chapter 4);
- (c) encouraging wider home ownership (Chapter 5); and
- (d) providing public rental housing for those in genuine need (Chapter 6).

1.4 In each of these four subject chapters we propose a way forward with specific recommendations where appropriate. Chapter 7 assesses the broad implications of the proposed measures, if implemented, for different groups in the community. Chapter 8 indicates the arrangements for public consultation.

Monitoring future progress

1.5 The success of any new strategy will depend very much on careful planning for implementation, proper supervision and regular review. For this reason, we have announced in our Policy Commitments in October last year our intention to set up a LTHS Advisory Committee. This body will monitor and, where necessary, advise the Secretary for Housing on adjustments to the LTHS. It will also help the Secretary for Housing to monitor changes in forecast housing demand and flat supply. We intend to establish the committee after final decisions on the current review have been taken and promulgated.

CHAPTER 2

OUR HOUSING GOALS

2.1 The Government's key housing goals are -

- (a) to help all households gain access to adequate and affordable housing; and
- (b) to encourage home ownership in the community.

2.2 The overall strategy by which we seek to achieve these goals is -

- (a) to provide a steady and sufficient supply of land, together with supporting infrastructure, for public and private housing;
- (b) to create the conditions to enable the private sector to make the fullest possible contribution towards meeting the demand for housing;
- (c) to implement subsidised housing schemes to enable those in the relevant income groups to buy their own homes;
- (d) to provide quality public rental housing at reasonable rents for those who cannot afford any other type of housing; and
- (e) to monitor the private housing market and, where necessary, introduce measures to curb speculation.

2.3 This broad strategy has remained unchanged for many years. It was generally reflected in the 1987 LTHS, as well as in the mid-term review of the LTHS conducted by the Housing Authority (HA) in 1993. It has also underpinned the many new Policy Commitments announced since October 1994 in the housing policy area. We believe that this broad strategy should continue to form the basis of the Government's policy on housing. Nevertheless, it is important that we should review the aims and achievements of the policies and programmes which support this strategy, so that we may be able to identify and implement the changes necessary to better achieve our basic goals in future, in the light of the changing needs and aspirations of the community.

2.4 The following chapters examine the main elements of our housing strategy, highlighting progress in achieving our goals so far, suggesting which areas pose the greatest challenges for the Government and the community in the years ahead, and putting forward our views on how the

challenges may be met. In many cases, the answers to the problems we face lie in maintaining or expanding existing policies or programmes. In others, a change of emphasis will be necessary to make further progress towards attaining our goals.

CHAPTER 3

INCREASING FLAT SUPPLY

3.1 Over the ten-year period from April 1986 to March 1996, the Government disposed of or provided a total of some 680 hectares of land for public and private housing. This is a very large amount indeed, given the size and geography of Hong Kong. It has helped the public sector to produce some 41 000 flats on average a year over the period, while a further 31 000 flats have been provided on average a year in the private sector. This translates into new production of some 200 flats a day. Few cities in the world can better such a record.

3.2 That there has been a consequential, real improvement in living conditions for most households in Hong Kong is beyond doubt. The number of inadequately housed families¹ has declined from 30% of the total in 1986 to under 9% today. But we are in no position to be complacent. The average waiting time for public rental housing is now six and half years, and we have pledged to reduce it to less than five years by 2001. The aspirations of the community for better housing, more home ownership and higher quality associated infrastructure inevitably rise as the wealth of the community increases. Suitable sites for housing and opportunities for redevelopment become rarer. And we face supply constraints, not only in terms of land and supporting infrastructure, but also in terms of the capacity of the construction industry.

3.3 On top of this, over the past ten years, the demand for housing has increased more than expected. This is principally because of a reduction in average household size and an increase in net immigration. As Hong Kong becomes more affluent and expectations rise, more families will want to have their own homes, rather than sharing accommodation. Coupled with an ageing population, this will result in more elderly persons living on their own. At the same time, the number of persons entering Hong Kong from China to join their families will continue to grow for sometime to come.

¹ An 'inadequately housed family' is defined for this purpose as a family living in accommodation which is either made of temporary materials or not-self-contained i.e. without its own tapped water supply, toilet and kitchen facilities.

3.4 We must respond to these challenges by planning ahead and by regularly monitoring future changes. We need a comprehensive approach to produce a sufficient supply of flats to meet demand. The first step must be to assess housing demand : that is, to produce a reasonable estimate of flat production requirements in the public and private sectors, and to update it regularly. We must then use all means open to us, including assisting redevelopment, providing new land and infrastructure, and increasing the density of development, where appropriate, to help to meet demand.

Assessing housing demand

3.5 Housing demand is generated essentially from the formation of new households, from the rehousing of families displaced by public and private redevelopment schemes or by clearances, and from households seeking better standards of accommodation. Taking into account these factors, we project a requirement for about 80 000 new flats on average each year over the 11-year period from April 1995 to March 2006. Estimated flat requirements for this period are set out in the table below -

PERIOD	AVERAGE ANNUAL FLAT REQUIREMENT		
	Public	Private	Total
1995-96 to 2000-01	54 000	31 000	85 000
2001-02 to 2005-06	39 000	34 000	73 000
Average :	47 000	33 000	80 000

3.6 The above projections have been made, using a computer model operated by the Government's Working Group on Housing Demand². They will require regular review and adjustment in the light of changing circumstances. For example, the estimated requirement for public housing, which is based upon the current income eligibility limits for allocation of a Home Ownership Scheme flat, will vary according to changes in the affordability of private housing. This in turn will be affected by changes in residential property prices, household income, borrowing costs and housing preferences. As another example, the projected decrease in the size of the public sector requirement over the period from April 2001 to March 2006 is largely a result of the scheduled

² In July 1994, an inter-departmental Working Group on Housing Demand, chaired by the Principal Government Town Planner (Territorial) of the Planning Department, was commissioned to produce a model to allow an assessment of housing demand over the period from April 1995 to March 2006 to be made. In January 1997, the Working Group completed its Report, which contains estimated flat production requirements in the public and private sectors.

completion of the HA's current redevelopment programme. Demand is also affected by population growth, changes in household size and economic conditions.

3.7 The Government will in future regularly update its projected flat requirement, by re-running the model operated by the Working Group on Housing Demand. In order to achieve the production of sufficient flats to meet the requirement indicated, both in the public and private sectors, we will need -

- (a) to secure a steady and sufficient supply of land and supporting infrastructure;
- (b) to process housing projects and related land transactions quickly and efficiently;
- (c) to maximise the opportunities for redevelopment in the private and public sectors; and
- (d) to take action, as necessary, to deal with constraints on the supply of labour.

Land supply

3.8 For the period from April 1995 to March 2001, sufficient land has been allocated or identified (based upon past trends for private sector production) to meet our announced production target of about 85 200 flats a year for both public and private housing³.

3.9 For the period from April 2001 to March 2006, we have assumed, for the purpose of land use planning, a requirement for 390 000 new housing flats, or 78 000 flats on average a year, as reflected in the projections in the Territorial Development Strategy Review (TDSR)⁴. This represents a "safety margin" of about 25 000 flats, or 7% of the current forecast of housing demand for the period.

³ This figure is an average. The actual supply will vary from year to year, depending upon various factors. In the public sector, production is scheduled to increase substantially towards the end of the period.

⁴ The primary goal of the TDS Review is to establish a broad, long-term planning framework, which takes account of and attempts to strike a balance between various land use, transport and environmental factors. Within this framework the necessary land and infrastructure can be provided, having regard to resource availability, to enable Hong Kong to continue to grow as a regional and an international city and become a better place in which to live and work. The outcome of the review, which began in 1990, is the "Territorial Development Strategy Review 1996", broad proposals for which are presented in a "Consultative Digest" published in July 1996 for public consultation. In 1997, a "TDS Review Executive Report" will be published to set out a selected framework.

3.10 Subject to further detailed study, we estimate that the development of reserved sites on current town plans, and the redevelopment of existing sites in the public and private housing sectors will be able to generate some 180 000 flats, or about 36 000 flats on average a year. There is thus a requirement to generate an extra 210 000 flats, or 42 000 flats on average each year, during this period.

3.11 We propose to meet this requirement for additional capacity by -

- (a) developing new strategic growth areas;
- (b) rezoning existing land where infrastructural capacity and environmental considerations permit; and
- (c) increasing the density of development in selected locations where there is spare infrastructural capacity.

3.12 The TDSR has identified ten strategic growth areas which could provide about 165 000 flats, or 33 000 flats on average a year, over the period⁵. In order to achieve this level of capacity, it will be necessary to adopt a 'target-driven' approach. We are looking at ways to speed up the production and disposal of new land for housing, for example, by streamlining procedures or by entrusting land formation and related infrastructure works to the private sector.

3.13 We aim to provide the balance of the estimated flat requirement of 45 000 flats, or 9 000 flats on average a year, through rezoning or increasing density of development. We are looking therefore at opportunities, subject to an assessment of infrastructural capacity and environmental impact in a number of feasibility studies⁶, -

- (a) to rezone land in selected locations, previously designated for industrial or unspecified community uses, which are surplus to requirements;

⁵ We expect to be able to start building construction work on the West Kowloon Reclamation in phases between 1996 and 2001. Work on the other areas such as Southeast Kowloon and Kai Tak, latter phases of Tung Chung and Tseung Kwan O may start between 2001 and 2004, subject to the completion of studies and statutory planning process.

⁶ Preparatory work is in hand. Subject to a smooth rezoning process, construction of about 17 500 flats could start between 1998 and 2001, while construction of the remaining flats could start around 2003-2005.

- (b) to identify potential new development sites on the periphery of planned or developed urban areas to which new roads and infrastructure could be extended without undue difficulty; and
- (c) to redevelop suitable old flatted factory estates of the HA.

3.14 We are also examining the feasibility of increasing the density of development (i.e. the number of flats to be built)⁷ in -

- (a) comprehensively designed new development areas where existing community services and infrastructural capacity permit; and
- (b) individual residential sites which have spare capacity.

Speeding up housing development

3.15 In addition to providing additional capacity, we need to ensure that any procedural or other constraints on the production of flats are addressed effectively. We have established the Housing Project Action Team (HPAT), chaired by the Secretary for Housing, to help to resolve complex problems involving major housing projects (500 flats or more) . So far, it has helped to advance 56 projects, involving about 130 000 flats, in the public and private sectors. We have also established a Housing Development Section in the Buildings Department to help major housing projects to meet the requirements of the Buildings Ordinance more quickly.

3.16 We will maintain our efforts to speed up housing production. In particular, we will continue -

- (a) to act efficiently and effectively, through HPAT, to remove bottlenecks in the production of new flats;
- (b) to look at further ways to streamline and speed up the procedures for the approval of housing projects and related

⁷ For example, we are looking at places like Tsuen Wan Bay Reclamation, Pak Shek Kok Reclamation and Sha Tin Area 56A. Preparatory work is in hand to commission feasibility studies. We expect building construction to begin between 2002 and 2003, subject to the resolution of any problems identified by the feasibility studies.

- land transactions⁸ ; and
- (c) to ensure that housing related infrastructure projects, such as water supply, sewerage and transport links, are funded and completed in good time.

Redevelopment of existing sites

Private sector

3.17 An estimated two-thirds of total private sector production over the past ten years has come from the redevelopment of existing sites or properties. The Government has long recognised the importance of private sector redevelopment, as a means of both satisfying housing demand and improving the urban environment. However, the Government also fully recognises that as fewer underdeveloped buildings or areas remain to be redeveloped and, owing largely to multiple ownership of land, the costs of acquiring properties and relocating tenants increase, the viability of private redevelopment projects becomes more difficult to establish. The Government accepts that we cannot rely upon the private sector alone to achieve urban renewal to the same extent as in the past.

3.18 Thus, following a review and public consultation exercise, the Government announced, in a policy statement on Urban Renewal published in June 1996, a package of measures to inject resources, especially land for rehousing, into the urban renewal process, and to realise more effectively the potential of urban renewal agencies involved. As a first step, the Land Development Corporation (LDC) will co-operate with the Housing Society to carry out urban renewal projects. The Housing Society will act as a rehousing agent using new sites to be granted for the purpose, thus leaving the LDC to concentrate on planning, site assembly and implementation. A dedicated urban renewal team in the Planning, Environment and Lands Branch has already begun to map out the details of these new arrangements to speed up urban renewal.

3.19 In the longer term, we will consider ways to encourage repair and renovation of existing buildings as an alternative to redevelopment. Over the next 10 years, the number of older buildings aged 40 years or more will increase at a rate of about 900 a year. The redevelopment of these buildings is unlikely to contribute significantly to the net supply of flats.

⁸ In October 1996, Lands Department issued a Practice Note setting out revised procedures designed to speed up the processing of applications for land exchanges and lease modifications.

At the same time, a recent survey has indicated that these buildings are likely to deteriorate more rapidly if not attended to now. We are thus taking steps to implement a new Building Safety Inspection Scheme to encourage the owners to carry out necessary repair and renovation works. In the longer term, we will also consider ways to promote new technology to produce more durable buildings.

Public sector

3.20 In the public sector, a key element of the original LTHS was to redevelop older public rental estates in order to improve housing standards. A Comprehensive Redevelopment Programme was launched in 1988 and will largely be completed by 2001. We have pledged to complete the programme by 2005. To increase supply, we believe that both the HA and the Housing Society should continue to make every effort to utilise fully the permitted development density in both new and redeveloped estates, in particular through the design and layout of the blocks on individual sites.

Construction capacity

3.21 The capacity of the construction industry to meet the demand for construction projects will depend very much upon the availability of adequate manpower resources. Our latest estimates indicate that, over the medium term, we do not expect a significant overall shortage of labour in the construction industry. However, there are some indications of potential shortages in specific trades. We will continue to monitor the situation and, if necessary, take early measures in consultation with the Construction Advisory Board and the Construction Industry Training Authority, as appropriate, to alleviate any specific constraint which may arise. We welcome suggestions as to what measures may be required to meet any shortage in both the short and longer term.

Summary

3.22 The first step is to assess the demand for housing. This involves the running and re-running of a computerised housing demand model, which will respond to changes in population, housing policy, economic conditions and other relevant factors.

3.23 The model operated by the Government's Working Group on Housing Demand currently indicates an average requirement of about 80 000 flats a year over the 11-year period from April 1995 to March 2006.

We have already allocated or identified sufficient land to meet this requirement for the first part of this period (April 1995 to March 2001). For the second part (April 2001 to March 2006), we have assumed, in line with the TDSR, a requirement for 78 000 flats a year (which provides a safety margin of about 7%). To meet this requirement, we will need to pursue the early development of new strategic growth areas, and, where feasible, the rezoning of existing land. We will also need to increase, where possible, development density to make better use of existing housing sites.

3.24 In addition to new development, we will need to monitor carefully the extent and speed of redevelopment in the public and private sectors. We will also need to monitor and, where necessary, take measures to deal with supply constraints other than land, in particular the capacity of the construction industry.

CHAPTER 4

MAXIMISING THE CONTRIBUTION OF THE PRIVATE SECTOR

4.1 The private sector has an important role to play in meeting the housing needs of the community. Over the ten-year period from April 1986 to March 1996, the private sector produced on average some 31 000 flats a year, with roughly one-third of this coming from development on new land sold by the Government during the period. We have pledged to facilitate the production of a further 195 000 private flats over the period from April 1995 to March 2001. The ability of the private sector to help meet the community's demand for housing is clearly of great importance. Nevertheless, buying a flat in the private sector remains beyond the ability of many families, while developers face increasing difficulties in site assembly for housing development (other than on sites sold by the Government) arising from multiple ownership, and in identifying financially viable opportunities for redevelopment.

4.2 In part, the answer to this challenge lies in easing supply constraints, including land. But developers must also have sufficient opportunities if they are to play their proper role in the interests of the wider community. At the same time, the Government must continue to monitor the private property market to ensure that it operates in a fair and competitive manner, and to guard against a revival of speculative activities on the scale experienced in 1993 and early 1994.

Encouraging private sector investment

4.3 It is clearly in the interests of the community for the Government to encourage private sector investment in housing, because the smaller the gap between the supply and demand for private housing, the lower the pressure on domestic property prices. However, the Government is also firmly committed to a free private housing market. The level and timing of supply of private flats are thus market decisions ultimately.

4.4 We believe that the best way for the Government to encourage investment in private housing is to ease as far as possible any supply

constraints which may arise. Thus (as set out in Chapter 3 above), we will seek -

- (a) to provide an adequate and steady supply of new land and supporting infrastructure to meet the demand for private housing;
- (b) to take all reasonable steps to streamline and speed up Government procedures for the approval of private housing projects and related land transactions, and to apply these procedures flexibly and pragmatically; and
- (c) to tackle any constraints in the capacity of the construction industry which may arise.

Joint ventures

4.5 We also believe that, in addition to the direct contribution which the private sector makes towards meeting housing demand, we should look imaginatively at ways in which we can make better use of the private sector's expertise and resources in helping us to deliver our public housing programmes. At present, such co-operation is limited to the Private Sector Participation Scheme (PSPS), introduced in 1978 as a supplement to the Home Ownership Scheme (HOS). The intention of the PSPS is to make use of the experience and resources of private sector developers in the production of flats for sale to prospective home owners eligible for HOS flats.

4.6 Under the PSPS, the Government offers sites for sale by tender to private developers to build flats for sale at a fixed price (in line with HOS flat prices) to purchasers nominated by the HA. Purchasers have to satisfy the same eligibility criteria as for flats sold under the HOS, and the same restrictions on resale apply.

4.7 The PSPS makes an important contribution to the overall supply of subsidised flats for sale in the public sector. Over the period from inception in 1978 to March 1996, some 66 000 flats were built, or about one-third of the total supply of subsidised home ownership flats. Over the period from April 1996 to March 2001, a further 62 000 flats will be built. We will continue to operate this successful scheme. However, we will also look for new ways to increase private sector involvement in our public housing programmes, with a view to improving the quality, variety and standard of management of the flats concerned.

4.8 One option is to invite private developers to build subsidised home ownership flats as part of a mixed development. Under this approach, we would continue to offer residential sites for sale by tender. But, at the same time, we would require the successful tenderer to make available a specified number of flats within the development for sale to eligible purchasers, at designated prices. The flats could be selected at random throughout the development, or the developer could be required to construct a mixture of subsidised home ownership flats and private housing blocks on separate parts of the same site. However, in either case, the developer would be required to provide and manage common facilities.

4.9 We believe that this new approach would bring extra benefits. It would allow purchasers of subsidised home ownership flats to enjoy higher standards of design, finish, facilities and management than under the present PSPS. It would also provide a greater range of product, because of the involvement of a greater number of developers building flats to their own design, and therefore more choice for purchasers.

4.10 Subject to a detailed feasibility study and a pilot scheme, we propose that an increasing proportion of subsidised home ownership flats should be provided by way of mixed development. The Housing Society would be an appropriate body to be designated to carry out the pilot scheme.

4.11 We would welcome further ideas from the public on other methods to involve the private sector in meeting our public housing targets.

Monitoring the residential property market

4.12 As a Government, we are committed to the principles of a free market economy. We are also committed to providing the regulatory framework necessary to ensure the fair and orderly operation of the private housing market. In accordance with our general economic philosophy, we aim to ensure that any market intervention is kept to the minimum necessary to remove distortion, ensure fair competition and protect the interests of genuine home buyers.

4.13 In June 1994, following widespread public concern at the rapid rise in residential property prices in 1993 and early 1994, the Government announced a package of measures designed to dampen property speculation in the short term, and to increase flat supply in the longer term.

We believe that the anti-speculation measures have been successful. They have helped to ease the rate of change in property prices.

4.14 We will continue to monitor the operation of the private housing market and to take action, where appropriate, to protect the interests of consumers. In view of the recent concern over speculation, particularly in the luxury flats market, we have formed an inter-departmental group to collate information on the private residential property market and to monitor the situation closely. The group is led by the Housing Branch, with representatives from all relevant Branches and Departments.

Summary

4.15 Higher private sector investment in housing reduces the gap between supply and demand, and lowers the pressure on domestic property prices. We wish to encourage such investment by easing any supply constraints especially of land and labour, by streamlining and speeding up Government procedures for the approval of private housing projects, and by applying these procedures flexibly and pragmatically.

4.16 We also wish to maximise the potential contribution of the private sector towards delivering our public housing programmes. In addition to the existing PSPS, we propose that new forms of mixed development should be used to produce a proportion of subsidised home ownership flats. A feasibility study and pilot scheme will be necessary to determine in detail how this new joint venture concept will operate.

4.17 While seeking to make the fullest possible use of the resources and abilities of the private sector in fulfilling our housing policy objectives, we will also continue to monitor the operation of the private housing market and to take steps, where appropriate, to ensure adequate consumer protection.

CHAPTER 5

ENCOURAGING WIDER HOME OWNERSHIP

5.1 The Government believes that home ownership is good for both the community and the individual. It helps to foster social stability and a sense of belonging. It also helps families to provide for their own future financial security. It is not surprising then that a large and increasing number of households in Hong Kong favour home ownership over other forms of tenure. They value independence, and control over their own homes. Flat owners know that, when their mortgages have been paid off, they will have the security of an asset that will help to maintain their standard of living.

Existing schemes

5.2 The Government's policy is to encourage home ownership in the community. We look to the private sector to make a major contribution to meeting this goal, and we therefore do our best to ease any supply constraints which the private sector may face. But, for many years, we have also operated a number of schemes to help middle and lower income families directly to buy their own homes.

5.3 The Home Ownership Scheme (HOS) and the supplementary Private Sector Participation Scheme (PSPS), introduced in 1978, aim to provide flats for sale at prices well below market value to families with monthly incomes currently not exceeding \$26,000 and to public housing tenants (who are not subject to this income limit). Up to March 1996, about 200 000 flats have been sold to eligible families, including 66 000 flats produced under the PSPS.

5.4 Favourable mortgage terms are provided by financial institutions to HOS and PSPS flats purchasers. The HA, in return, undertakes to indemnify them against loss in case of default. Purchasers can borrow up to 90 - 95% of the flat price at a favourable interest rate, with repayment periods of up to 20 years.

5.5 The Sandwich Class Housing (SCH) Scheme, introduced in 1993, aims to help families living in private rented accommodation with monthly

incomes currently of between \$26,001 and \$60,000 to buy their own homes. It comprises a main scheme and a loan scheme.

5.6 The main scheme involves the granting of land on concessionary terms to the Housing Society to build 30 000 flats by 2003. Sites for 20 000 flats have been granted or earmarked. Sites for a further 10 000 flats are being identified. The loan scheme, set up with a grant of \$2 billion from public funds, was designed to assist initially over 4 000 families to purchase their own homes in the private sector. We intend shortly to seek the approval of the Legislative Council for a further injection of funds to help more families to buy their own homes.

5.7 The Home Purchase Loan Scheme (HPLS), introduced in 1988, aims to help families with incomes currently not exceeding \$26,000 and public housing tenants (who are not subject to this income limit) to buy flats in the private sector. Eligible applicants are offered by the HA an interest-free loan, repayable over the same period as the bank mortgage on the property, up to a maximum of 20 years. Alternatively, they may opt for a monthly subsidy for 48 months, which need not be repaid. The current amounts of loan and monthly subsidy for families living in private housing are \$400,000 and \$3,400 respectively. But, since June 1995, in order to encourage more public housing tenants to purchase property and to give up their rental flats for re-allocation, the amounts of loan and monthly subsidy for public housing tenants have been increased to \$600,000 and \$5,100 respectively.

5.8 Up to March 1996, some 11 500 loans and 650 subsidies have been granted, and 6 500 public rental flats recovered. We support the continued operation of the HPLS as a flexible and cost-effective means of encouraging home ownership.

Outstanding demand

5.9 Since inception of the subsidised home ownership schemes in 1978, we have built some 200 000 flats for sale at subsidised prices. As a result of these programmes and the important contribution of the private sector, we have been able to increase the home ownership rate in Hong Kong by one-third over the past ten years to a little over 50% today.

5.10 This is a significant achievement. But there is still a large unmet demand for home ownership. The Government's subsidised home ownership programmes, both flats for sale and home purchase loans,

continue to be heavily over-subscribed. Furthermore, past surveys have indicated that many public housing tenants wish to own their homes.

5.11 In order to respond to this demand, we propose -

- (a) to maintain and, where possible, expand the existing schemes to help eligible families to buy their own homes; and
- (b) to provide new opportunities for public housing tenants to become home owners.

Expanding the Home Ownership Scheme

5.12 We will continue to operate the existing subsidised home ownership schemes. Over the period from April 1995 to March 2001, we have pledged to build 175 000 flats for sale. The HA also expects to provide some 10 000 loans over the period from April 1996 to March 1998 to assist eligible families living in either public or private rented accommodation to buy their own homes in the private property market.

5.13 We will also look for opportunities to increase the supply of HOS and PSPS flats in future. As a first step, we propose that the HA should look at ways to expand its existing 'transfer block' scheme. Under this scheme, the HA transfers new rental blocks to the HOS for sale to households which qualify for allocation of public rental housing and to existing public housing tenants. Sale prices are set at a discount of 5% to those in HOS "Harmony" blocks, in recognition of the difference in the standard of finishing.

5.14 This scheme brings three important benefits : it helps to meet unsatisfied demand for home ownership; it reduces the demand for public rental flats among households which can afford to buy their own homes and which would otherwise qualify for public rental housing; and it releases public rental flats for re-allocation to others in need. As such, the scheme helps to promote home ownership, while not affecting the rehousing opportunities of households awaiting allocation of public rental flats. Public housing resources can be allocated therefore in a more equitable and flexible manner.

5.15 We propose that the HA should consider widening this scheme to provide more opportunities for home purchase among both existing and qualified prospective tenants, subject to both demand and available supply.

5.16 We also support the HA's recent proposal in its HOS review⁹ to grant a monthly mortgage subsidy during the first three years to Comprehensive Redevelopment Programme (CRP) tenants who choose to buy, rather than rent, new flats in reception estates.

5.17 Under this proposed mortgage subsidy arrangement, CRP tenants would purchase flats in the 'transfer blocks' in the usual way, i.e. full payment of the purchase price to the HA through 5% downpayment and a mortgage loan from financial institutions. The HA would assist home buyers in the repayment of their mortgage loans through a monthly grant of \$6,000, \$4,500 and \$3,000 in the first, second and third year respectively. (This concession would not be available to those tenants who would have had to pay market rent should they have opted to remain as public housing tenants.) To deter speculation, owners who wished to resell their flats during the first three years would have to repay to the HA the total amount of subsidy received. However, after three years, the subsidy would not be clawed back upon resale.

5.18 Any remaining flats in those 'transfer blocks' not taken up by CRP tenants would be offered for sale to public housing tenants living in estates in the same district which were less than ten years old. The benefit of the mortgage subsidy would also be available to these buyers as an exceptional concession, to ensure that a sufficient number of reasonably new flats would be available in the same district for allocation to CRP tenants who did not wish to buy.

Providing new opportunities for public housing tenants

5.19 We also believe that we should do more to encourage public housing tenants to become home owners. This is because, by doing so, we not only improve the living standards of those concerned, we also increase the supply of rental flats for re-allocation to families in greater need. We propose two new opportunities for home purchase for public housing tenants.

Sale of Sandwich Class Housing flats

⁹ Details are set out in Chapter 3 of the Report of the Home Ownership Scheme Review published in April 1996.

5.20 Public housing tenants are not currently eligible to apply for purchase of SCH flats. Nevertheless, if allowed to apply, many would qualify and certainly some would wish to buy. We believe that public housing tenants should be allowed to apply for the purchase of SCH flats both to encourage better-off tenants to move out of subsidised housing which they no longer need and, more importantly, to release flats for re-allocation to other families in greater need. Successful applicants would need to meet in full the standard eligibility criteria including income, net asset limits and restrictions on private property ownership. While this proposal could, in theory, reduce the opportunities for sandwich class families living in private rented accommodation, we do not expect the impact to be great, especially given the separate proposal to expand the SCH loan scheme.

Sale of rental flats to tenants

5.21 In 1991, the HA introduced a pilot scheme to enable sitting tenants to buy their own flats. The scheme was unattractive because -

- (a) the price of flats was set too high relative to prevailing rents;
- (b) tenants were concerned about high future maintenance costs;
- (c) purchase would bring no apparent improvement in living conditions, as tenants already enjoyed security of tenure at low rents; and
- (d) resale restrictions were too stringent.

5.22 There have been widespread calls in the community to launch a new scheme to sell rental flats to public housing tenants at affordable prices. We fully support this proposal which will enable public housing tenants to become stakeholders in the community.

5.23 As a matter of principle, the price of flats sold under such a scheme should be set at a level which is both attractive to the prospective buyer and fair to the general community. We propose that prices should be set at a level which would enable the HA to recover the replacement cost of the concerned flats. Adjustments could be made to reflect depreciation and the relative value of, say, location. And a modest contribution to a maintenance fund could be levied to ease the problem of future maintenance and improvement works.

5.24 A number of important operational details will need to be worked out, including the choice of blocks, conditions on resale, future

arrangements for management, maintenance and any structural repairs. We propose to invite the HA to work out the details for such a scheme to be launched as soon as possible.

Mortgage Corporation

5.25 While we focus in particular on increasing home ownership opportunities for public housing tenants, we must not forget that there are many families in the private rental sector who would also like to buy their own homes but who may not be eligible for subsidised home ownership flats produced by the HA or the Housing Society. For these families, we will encourage the private sector to increase the supply of flats to meet demand. We also endorse an adequate supply of mortgage loans to meet demand.

5.26 In July 1996, the Government announced its intention to set up a Mortgage Corporation. Initially owned by the Government through the Exchange Fund, the Corporation will purchase mortgage loans from authorised banks and deposit taking companies for its own portfolio, and in due course issue mortgage backed securities. In this way, the Corporation will provide an additional source of finance for Hong Kong's growing property sector. Apart from enhancing banking and monetary stability and promoting the development of the local debt market, the Corporation will thus help to channel funds to provide mortgage finance to home buyers. And by helping banks and other lending institutions to provide an adequate supply of credit for prospective home buyers, the Corporation will help to boost the overall home ownership rate in the community.

Summary

5.27 The Government's goal is to encourage home ownership in the community. Home ownership helps to foster social stability and a sense of belonging, and to provide personal financial security.

5.28 Since home ownership in the private sector remains beyond the reach of many families, the Government has implemented a series of carefully targeted subsidised home ownership schemes for middle and lower income families. As a result, the home ownership rate has increased by one-third over the past ten years to just over 50% today. We believe that the Government's housing delivery agents - the HA and the Housing Society - should continue to operate and, where possible, expand these

successful schemes. We will shortly seek the approval of the Legislative Council for a further injection of funds into the SCH loan scheme to help more families to buy their own homes.

5.29 At the same time, we should do more to help and encourage public housing tenants in particular to become home owners. By doing so, we not only improve the living standards of those concerned as well as increase the overall home ownership rate, we also increase the supply of public rental flats for re-allocation to families in greater need. Accordingly, we propose to allow public housing tenants to apply for the purchase of SCH flats on equal terms with families living in private housing; to invite the HA to consider widening its existing scheme to transfer new rental blocks to the HOS for sale to existing and qualified prospective public housing tenants, with the additional benefit of a monthly mortgage subsidy for CRP tenants who choose to buy new rental flats in reception estates; and to invite the HA to work out the details for a new scheme to sell suitable existing rental flats to tenants at affordable prices.

5.30 We support the establishment of the Mortgage Corporation which will help banks and other lending institutions to provide an adequate supply of mortgage loans to help families wishing to buy their own homes.

CHAPTER 6

PROVIDING PUBLIC RENTAL HOUSING FOR THOSE IN GENUINE NEED

6.1 The public rental housing programme is one of Hong Kong's greatest social achievements. By providing decent accommodation for low income families who cannot otherwise afford adequate housing, the public housing programme has helped to foster social stability and harmony which in turn have contributed to the economic prosperity of Hong Kong. Over the years, the HA's public rental housing stock has increased to over 660 000 flats today, and the quality of living has improved with better design and space standards.

6.2 Despite this record, we estimate that there are still up to 170 000 families who are living in shared or non-self-contained accommodation in squatter areas, old urban areas and temporary housing areas. They may or may not be among the 150 000 applicants on the Waiting List. Looking to the future, new immigrants from China will add pressure to the demand for both public and private rental housing and, meanwhile, will aggravate the overcrowded living conditions in our older urban areas.

6.3 The large number of households who are still inadequately housed, is a matter of great concern. It underlines the need for the Government's continuing commitment to provide public rental housing to those in genuine need.

6.4 But there is another side to this problem. Public rental housing is heavily subsidised by the community. It takes up considerable resources both in terms of land and funds. Total expenditure by the HA on rental housing in 1996-97 is estimated to amount to some \$14 billion, or about 6% of total public expenditure. In 1997-98, we estimate that the average subsidy per rental flat will amount to some \$230 a month, or 15% of operating costs. This excludes the historical value of land granted to the HA for rental housing, which alone amounts to some \$130 billion. More worryingly, the domestic operating account of the HA is running at an increasing deficit, which is forecast to grow to some \$6 billion for the five-year period up to March 2001¹⁰. At the same time, a survey conducted by

¹⁰ The deficit in 1996-97 is estimated to be \$0.9 billion, rising to \$1.2 billion in 2000-01.

the HA in 1995 showed that 13% of public rental tenants owned private domestic property. And the HA recovers, on average, some 60 flats a month from tenants who are found to be no longer living in public housing.

6.5 The problem can be summarised as follows -

- (a) on the one hand, despite the huge, and growing, amount of resources committed each year to providing public rental housing, there are still many families in genuine need of public rental housing; and
- (b) on the other hand, there are many public housing tenants who are no longer in genuine need of the very large subsidy they currently enjoy, often paying a smaller proportion of their household income in rent for better accommodation in the public sector than is being paid by more needy families living in sub-standard accommodation in the private sector.

6.6 The solution to this problem is to ensure that public housing resources are effectively mobilised to help those who have a genuine need for housing assistance. The HA has taken important steps to ensure a more equitable allocation of limited public housing resources, in particular through the measures announced last year to require better-off tenants to pay market rent or to move out. But we need to do more. We believe that, in the interests of the whole community, we should take further measures to ensure that -

- (a) the allocation of public rental housing is based on genuine need;
- (b) public housing rents truly reflect tenants' ability to pay; and
- (c) public rental housing is provided to those who are most in need of assistance.

Allocation of public rental housing based on genuine need

6.7 We believe that, as a matter of equity, we must ensure that our limited public rental housing resources are given only to those in genuine need of subsidy. If we do not, an unfair burden will fall on the general community. And we will be less able to help those who are in genuine need of housing assistance. To ensure that the allocation of subsidy is based on genuine need, we believe that the right to enter and stay in public rental housing should be means tested. But we accept that we should continue to provide interim housing for those families who fail the means

test or other eligibility criteria but who may otherwise be made temporarily homeless.

6.8 These measures are designed primarily to underline the principle of equity. But they should also help to increase the supply of public rental flats available for re-allocation to those who are in genuine need. At the same time, we should examine ways to minimise the pre-emption of supply, arising either through the loss of public rental flats upon redevelopment or through the allocation of flats to ‘committed categories’.

Common eligibility criteria

6.9 A large proportion of public rental flats available each year for allocation is now taken up by committed categories, including clearances and redevelopment, compassionate and emergency rehousing. Households in these categories are exempt from means testing to establish their eligibility for public housing. This exemption goes against the basic principle of allocating public housing subsidy on the basis of genuine need, that is, to those who really cannot afford adequate housing in the private sector.

6.10 We believe that it is both fair and reasonable that all prospective tenants should be subject to the same eligibility criteria for public rental housing, including means testing. The two key measures of financial means are income and assets.

6.11 At present, applicants on the HA’s Waiting List are means tested to establish eligibility. To qualify for public rental housing, their household income must not exceed specified limits, and they must not own private domestic property. Families displaced by the Government’s clearances are not subject to the income test. And if they fail to meet the private property ownership test, they are still offered interim housing.

6.12 After ten years’ residence and every two years thereafter, HA tenants are required to make an income declaration. Those whose household income exceeds specified limits are required to pay extra rent. Last year, the HA introduced measures to require double rent payers to undergo a comprehensive means test, covering both income and net assets, every two years thereafter. These measures are a step in the right direction towards ensuring greater equity. We fully support them. But we need to go further.

6.13 We believe that a comprehensive means test, covering both income and net assets, should be applied to applicants before they are given public rental flats. More specifically, we propose that -

- (a) all prospective tenants (subject to a few minor exceptions¹¹) should be required to undergo a comprehensive means test, covering both income and net assets, before entry. Income limits should continue to be derived according to the current formula. Net asset limits would need to be set at appropriate levels; and
- (b) families displaced by clearance operations who fail the means test should be offered interim housing as they may still have a temporary need for housing. But their length of stay in interim housing should be restricted to a limited period of, say, one year. During this period, they will be given priority for the purchase of HOS/PSPS flats or the grant of HPLS loans, subject to meeting the normal eligibility criteria.

We propose to invite the HA to work out the details for such arrangements, including the implications for demand (and land requirements) for both interim housing and subsidised home ownership schemes.

Restrictions on grant of new tenancy on death of principal tenant

6.14 At present, the tenancy of a public rental flat may be passed onto the surviving spouse, without means testing, upon the death of the principal tenant. Where there is no surviving spouse, the tenancy may be granted to another adult member of the same household, subject to an income test. Where appropriate, additional rent is charged.

6.15 We feel that public rental tenancies should not be allowed to be passed on from one generation to the next as a matter of course. Grant of a new tenancy (other than to the surviving spouse) should be justified on the basis of genuine need. We propose therefore that -

¹¹ We propose to continue to exempt the Compassionate Rehousing, Emergency Rehousing, and junior civil service categories. (The HA has a long-standing arrangement with the Government to provide public housing for junior civil servants who do not enjoy other forms of housing benefit.) These categories preempt about 5% of average annual supply of public rental flats.

- (a) the adult members of a deceased tenant's family (with the exception of the surviving spouse) should be required to undergo a comprehensive means test, covering both income and net assets, before the grant of a new tenancy and, where necessary, to pay extra rent; and
- (b) adult members who fail the means test should be allowed to stay temporarily in public rental housing, as they may still have a temporary need for housing. But they should be required to pay market rent and their length of stay should be restricted to a limited period of, say, one year.

Again, we propose to invite the HA to work out the details for such arrangements.

Minimising pre-emption of supply

6.16 By ensuring the allocation of public rental flats on the basis of genuine need, the measures outlined above should help us to reduce the waiting time for public housing. However, it is also important that we should minimise the pre-emption of available public rental housing supply by committed categories. We propose therefore that the HA should consider -

- (a) to confine any future redevelopment of HA estates, following the completion of the HA's Comprehensive Redevelopment Programme in 2005, to selected blocks determined by need, and having regard to structural conditions and build-back potential;
- (b) to require applications for transfer which would involve the allocation of an additional flat to be made through the Waiting List;
- (c) to make no further change to the current space allocation standards for public rental flats until outstanding demand on the Waiting List has been substantially met; and
- (d) to require eligible households living in interim housing to register on the Waiting List, so as to help ensure a more equitable allocation of public housing resources.

Affordable rents

6.17 Rents for public housing are determined on the basis of tenants' ability to pay. The principle of affordability is translated into two median

rent-to-income ratio ceilings. In setting rent levels, the HA takes into account inflation, rates, its own operating costs and the relative value of the estate. But its overall aim is to ensure that the median rent-to-income ratios for each estate do not exceed -

- (a) 15% in respect of the minimum space allocation standard of 5.5 square metres internal floor area per person; and
- (b) 18.5% in respect the higher space allocation standard of 7 square metres or more per person.

6.18 Furthermore, the HA provides temporary rent relief to tenants who face financial hardship¹². This reduction in rent is provided for up to two years, subject to review after 12 months. Tenants who continue to face difficulty after two years may be required to transfer to cheaper housing in the same district, with a domestic removal allowance and a rent-free period of one month.

6.19 We fully support the principle of affordability, and the continued provision of temporary relief to those in need. But the simple fact is that rents are now, for the majority of tenants, well below what could reasonably be said to be affordable. Over the years, the increases in public housing rents have not kept pace with the rise in real incomes. As a result, the median rent-to-income ratio for HA tenants as a whole is now only about 9%.

6.20 Public housing rents represent, on average, about 27% of the market rent for comparable flats in the private sector. While we accept that public housing rents should be below market levels, we also believe that, at current levels, public housing rents no longer reflect the ability to pay. Nor do they cover the recurrent costs incurred by the HA in maintaining and managing public rental estates. Furthermore, low rents, coupled with rising standards, are a major disincentive for better-off tenants to move out of public rental housing.

6.21 For all these reasons, we propose that, as a matter of equity, the HA should consider increasing rents gradually to more realistic but still affordable levels so as to better reflect the ability to pay, whilst maintaining

¹² Under the HA's Rent Assistance Scheme, a household may qualify for a 50% reduction in rent if the household income is less than 50% of the relevant Waiting List income limit; the rent-to-income ratio exceeds 25%; or the household income falls between 50% and 60% of the relevant Waiting List income limit, and the rent-to-income ratio exceeds 15%.

the Rent Assistance Scheme for families in need. In particular, we propose that -

- (a) rents for new public rental estates (of Harmony block design) should be set and maintained at a level sufficient to achieve median rent-to-income ratios of 15% or 18.5% (for the relevant space allocation standard)¹³ ;
- (b) similarly, rents for existing estates should be increased progressively to achieve median rent-to-income ratios of 15% or 18.5% (for the relevant space allocation standard), having regard to relative estate values, over the period to 2006; and
- (c) the Rent Assistance Scheme should be reviewed and revised as necessary to ensure that adequate assistance continues to be available to those families facing genuine hardship.

Helping those in need

6.22 The proposals to means-test the right to enjoy public rental housing, and to raise public housing rents gradually to more reasonable levels are designed to ensure greater equity in the allocation of the community's limited public housing resources. But they also reflect the wish to give priority to those in greatest need of assistance. These measures should help to increase the supply of flats available for re-allocation to needy families. But, at the same time, we should consider whether further assistance is required for vulnerable groups. We have concluded that we should focus more attention on helping the elderly in particular.

6.23 Elderly persons, in particular elderly single persons, represent a substantial proportion of total housing demand. In recent years, the number of small households has increased very rapidly. This reflects two trends : an ageing population, and a decline in household size. There are currently estimated to be about 280 000 one-person households, or about 15% of all households in Hong Kong. About one-third of these single persons are elderly. By 2005, the number of one-person households is estimated to rise to some 315 000, an increase of 14%.

6.24 Not all of these single persons will qualify or wish to live in public housing. However, some will. At present, about 60 000 single persons are accommodated in public rental housing, or about 20% of the total. (Of

¹³ In practice, tenants of new public rental flats are allocated space at the higher standard of 7 square metres per person.

these, about 43 000, or about 70%, are elderly persons.) Over the next five years to 2001, the HA plans to allocate a further 55 000 small flats to eligible single persons. (About 50% of these flats will be allocated to the elderly.) We will continue to monitor the trend, and to take timely action to meet the housing needs of eligible members of this group.

6.25 The HA also operates four priority schemes to speed up the allocation of public rental flats to the elderly. It makes offers of public rental housing -

- (a) to elderly single persons applying for Housing for Senior Citizens flats within two years of registration;
- (b) to elderly single persons who are prepared to share accommodation with other elderly persons, also within two years of registration;
- (c) to families with elderly members, three years earlier than normal; and
- (d) to families with elderly members who require two flats and who are willing to be housed in New Towns, one year earlier than normal.

6.26 These schemes have been successful in helping to provide assistance more quickly to elderly persons in genuine need, and to encourage families to look after their elderly members. At the same time, we wish to provide a wider choice of accommodation suited to the needs of the elderly. We propose therefore to provide the Housing Society with some suitable small sites for the construction of affordable housing for sale or rent to eligible elderly persons. This new initiative is designed to provide suitable accommodation for those elderly persons in the middle income group who are able to look after themselves.

6.27 Apart from elderly singletons, an increasing number of able-bodied middle-aged single persons encounter difficulty in obtaining adequate housing in the private sector. We support therefore the measures being taken by the HA to increase the supply of small public rental flats for allocation to eligible single persons, which will help to meet the needs of this group. In addition, we are providing alternative accommodation for bedspace apartment lodgers displaced as a result of the introduction in 1998 of a licensing scheme¹⁴.

¹⁴ In April 1994, the Government enacted the Bedspace Apartments Ordinance to introduce a licensing scheme to regulate the fire and building hazards of bedspace apartments. In 1998, all bedspace apartments

6.28 We also feel that the private sector should be encouraged to provide affordable housing for single persons, with priority being given to the elderly. We welcome suggestions on how best to achieve this aim.

Clearance policy

6.29 In considering how best to help those in greatest need, it is important also to review the Government's clearance policy. As a result of clearances over the years, the total squatter population has dropped from about 440 000 in 1986 to about 240 000 today. It remains our objective to improve the living conditions of those who are inadequately housed, including squatters. However, squatter structures on government or private land, as well as roof-top structures, while illegal, do not necessarily represent inadequate housing. Nor would it be a sensible use of our limited resources to clear all the structures, irrespective of the future land use of the areas affected.

6.30 Cottage Areas represent a special case. In the early 1950s, the Social Welfare Department conducted a registration of the natural disaster victims of squatter areas and issued a Temporary Identity Card (commonly known as the "white card") to them. In order to alleviate the problem of homelessness, the Emergency (Resettlement Area) Ordinance was enacted in 1952. Under the Ordinance, the Urban Council was authorised to designate certain areas as Cottage Areas for the construction of cottages by approved building contractors according to standard layout plans and designs. These cottages were then sold by the building contractors to persons who were in possession of Temporary Identity Cards. The Government also allocated sites for voluntary agencies to build cottages according to the standard layout plans and design. Some of those cottages were then allocated to families recommended by the Government.

will be required to comply with the new safety standards. Some bedspace apartments may not be able to meet the new requirements or may opt to close down. Others may be required to reduce the maximum number of lodgers who can be accommodated. We will provide public rental housing for those aged 60 or over, who qualify on social or medical grounds, or who meet the normal eligibility criteria. For those above and others who do not qualify for public rental housing, we will offer places in singleton hostels under the management of the Home Affairs Department. We will complete the construction of a multi-storey hostel in Sham Shui Po in mid-1998 to accommodate about 300 lodgers. We will also speed up the planning and construction of another hostel in Western District.

6.31 Only five Cottage Areas now remain, with a total population of some 3 500. These areas fall under the management responsibility of the Housing Authority. Currently, there is no plan to clear these areas unless the land concerned is needed for development purposes or affected by geotechnical problems. We have advised and encouraged Cottage Area residents to register on the Waiting List in order to increase their chance of early rehousing in public rental flats. Meanwhile, subject to the availability of housing resources, the Housing Department will continue to make available public rental flats from time to time for application by Cottage Area residents.

6.32 Against this background, we propose that the HA should adopt the following guiding principles for clearance operations in future -

- (a) squatters and roof-top dwellers who are eligible for public rental housing should continue to be encouraged to register on the Waiting List. This reduces the pressure for special treatment for individual groups of squatter and so helps to avoid queue jumping;
- (b) clearances to ensure public safety and to meet development needs should continue to be carried out, and should be planned and co-ordinated well in advance to ensure that rehousing resources are available;
- (c) we should explore the feasibility of clearing all remaining Cottage Areas, subject to the availability of rehousing resources;
- (d) we should consider the feasibility of clearing all squatter areas on mixed lots in urban areas, subject to the availability of rehousing resources; and
- (e) we should continue to rehouse, in accordance with existing eligibility criteria, persons who are made homeless as a result of the demolition of roof-top structures.

Interim housing

6.33 The Government's clearance programme will help many families to improve their living conditions. At the same time, for some families, it will also give rise to the need for temporary housing. We recognise that there is a continuing and long-term need for interim housing to accommodate clearances, and others who have no alternative accommodation but who do not qualify as yet for public rental flats.

6.34 In recent years, the Government and the HA have taken steps to improve the living conditions of THA residents. In summary, older (pre-1984) THAs will be phased out soon. The standards of the remaining, newer THAs are being improved in the short term; in the longer term, they too will go. In future, the demand for interim housing will be satisfied by making use of older public rental estates. As a supplement to this source of interim accommodation, the HA is also exploring the use of pre-fabricated structures of a new design, and the development of permanent high rise buildings for interim housing.

6.35 Apart from providing interim housing residents with a decent standard of accommodation, the HA will encourage a high turnover in tenancies. That is, the HA will plan to move eligible families in interim accommodation into public rental housing as soon as possible according to their priority on the Waiting List, but will retain the interim accommodation for use by new residents.

6.36 We support the HA's initiatives for interim accommodation, namely

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- (a) to phase out existing, traditional THAs as soon as possible, but in the meantime, to improve their standards to provide residents with decent, hygienic accommodation;
- (b) to provide interim housing in future as far as possible through the use of older public rental housing blocks on the fringe of the urban area; and
- (c) to continue to examine the feasibility of other forms of interim housing.

Summary

6.37 The Government is firmly committed to providing adequate public rental housing for those in genuine need. Adequate housing does not have to be brand new flats.

6.38 High on the public housing agenda is the need to improve the living conditions of those who are inadequately housed. To speed up the process, we propose to apply the same eligibility criteria to all prospective tenants, to minimise pre-emption by committed categories, and to restrict the grant of new tenancies, upon the death of the principal tenant, to those adult members of the deceased tenant's family who have a genuine need. We also propose that the HA should consider increasing rents gradually to

more realistic but still affordable levels, while at the same time ensuring that the existing Rent Assistance Scheme continues to provide adequate assistance to families facing genuine hardship.

6.39 We will continue to encourage families who are inadequately housed to come forward and register on the Waiting List. We also highlight guiding principles for interim housing and clearances, and new initiatives to provide housing for the elderly.

CHAPTER 7

CONCLUSION

7.1 Throughout this document, we have attempted to keep in mind our two key housing policy goals: to help all families gain access to adequate and affordable housing, and to encourage wider home ownership in the community. We have examined in turn the major policies which underpin these goals. At the end of each chapter, we have summarised the thrust of our argument and, in addition, have made some 40 specific recommendations to support the priorities we have identified.

7.2 Because this document is intended to be strategic in nature, many of the operational details as well as the financial implications remain to be worked out. In addition, we may need to revise our recommendations having regard to the views expressed during the public consultation exercise. For these reasons, it would not be appropriate for us to attempt to predict the precise effect of our proposals on the operation of our housing policies and programmes (for example, on the precise ratio of production between subsidised home ownership flats and public rental flats in a particular year; the number of people on the Waiting List ten years from now; the number of interim housing residents in a given period; or the precise number of flats to be developed in a particular area as a result of our efforts to apply planning guidelines in a flexible way). But we must still ask the question : what will the proposed measures set out in this consultative document, if implemented, mean in broad terms for the different sections of the community?

7.3 Our own preliminary assessment is that -

- (a) for families on the Waiting List, including the inadequately housed, there will be a more equitable system of allocation of public rental housing, using the same set of entry criteria for both Waiting List and other categories of applicant. Together with an increase in the number of flats available for allocation, this will help us to shorten the waiting time;
- (b) for existing public housing tenants and other families who are eligible for assistance, there will be more opportunities for home ownership as a result of the Government's subsidised home

ownership schemes and the proposals which we have put forward;

- (c) for aspiring home owners in the private sector, opportunities should also be greater as flat supply continues to increase;
- (d) for private sector developers, there will be greater opportunities to help meet the housing needs of Hong Kong; and
- (e) for the community itself, there will be greater choice in terms of housing provision, and more equitable use of the community's resources.

CHAPTER 8

PUBLIC CONSULTATION

8.1 We look forward to a lively and constructive public debate following the publication of this document. Hong Kong's public housing programmes have been an international success story. But there is no doubt that we face serious challenges in the future. We have identified those challenges and put forward constructive proposals to deal with them. We welcome suggestions for additional or alternative ways of achieving our policy aims, as well as views on the proposals themselves.

8.2 Comments on the conclusions and recommendations in this document should be forwarded in writing, not later than 31 May 1997, to -

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Housing Branch

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January 1997