

## **Executive Summary**

The prices and rents of private domestic units in Hong Kong have continued to rise in recent years, far exceeding the affordability of the general public. Meanwhile, the number of applications for public rental housing (PRH) has repeatedly reached record highs and the waiting time for allocation of PRH has kept extending. The current housing problems affect seriously not only the livelihood and well-being of Hong Kong people, but also social harmony and stability as well as the long-term competitiveness of Hong Kong. To solve the housing problems, the Government announced in 2014 the ten-year housing supply target under the new Long Term Housing Strategy. However, the demand for public housing in the community is keen. In this regard, the Bauhinia Foundation Research Centre (the Centre) has reviewed the existing public housing policy from multiple perspectives, listened to the views of experts, made reference to overseas experiences, and analysed information collected. We hope that the Government would increase the supply of public housing continuously on the one hand, and actively explore all feasible ways to optimise the available public housing resources on the other hand, thereby meeting people's housing needs properly and perfecting Hong Kong's public housing policy.

### **To use public housing resources effectively in order to meet people's housing needs**

2. Public housing has huge financial and land resources implications. The effective use of related resources affects the living quality of existing households and impacts on applicants awaiting PRH. In 2016, about 45.7% of the domestic households lived in public housing, of which 30.4% and 15.3% of the households lived in PRH and subsidised sale flats (SSF) respectively. The Government aims to provide people who cannot afford to rent or buy a private domestic unit with PRH and SSF (mainly Home Ownership Scheme, HOS). After reviewing the allocation and use of existing public housing resources, the Centre thinks that the top priority of the Government is to address the housing needs of low-income people, especially those having a heavy financial burden of rented accommodation or inadequately-housed while awaiting PRH flat allocation. Given the limited PRH resources, the Government should ensure that PRH resources currently available are allocated to those in genuine need, and provide incentives to encourage PRH

tenants to buy their own homes through SSF, so that more PRH units would be released for reallocation. To ensure the effective use of PRH resources to meet people's housing needs, the Centre proposes the following six recommendations.

**(a) Regularise checking to screen out ineligible PRH applicants**

3. In view of the lengthening average waiting time for PRH, the eligibility of PRH applicants may stay unchecked for a long time. Since the applicants are put on the Waiting List, it is difficult for the Hong Kong Housing Authority (HA) to grasp the actual demand of PRH. In 2015, HA conducted a checking exercise on the eligibility of applicants who have waited for five years under the Quota and Points System but are not yet due for detailed vetting within the next two years. Among all applications checked, nearly half of them were cancelled because they were no longer eligible. To ensure that HA could have a more accurate assessment of PRH demand, the Centre recommends HA to check PRH applicants' eligibility regularly. As the waiting time for PRH may further lengthen, HA may consider requesting PRH applicants to declare their income and assets and confirm their interest in applying for PRH once every two years. The measure can effectively eliminate ineligible applications, thereby enabling HA to have a better grasp of the situation of applicants, and hence a better assessment of the demand and planning for PRH.

**(b) Establish an online platform for implementing the PRH Swap Scheme**

4. Currently, HA provides transfer schemes and reserves some PRH units to cater for tenants' different needs for flat transfer as they may have difficulties in continuously living in the existing flats due to special circumstances. However, the acute shortage of PRH units for allocation restricts the implementation of the transfer schemes. Unless in case of special or emergency situations (e.g. family tragedy), it is difficult for tenants to be successfully transferred. The Centre recommends HA to establish an online platform to implement the PRH Swap Scheme, and merge the existing transfer schemes with the PRH Swap Scheme. With reference to the United Kingdom's mutual exchange, the Housing Department (HD) may let tenants requesting for a flat transfer provide some basic information including three preferred estates for swapping online. HD will then make matching arrangements based on the applicants' preferences and transfer reasons, and priority will be accorded to those with urgent needs (e.g. tenants who are affected by estate clearance projects or

major repairs). To prevent any possible unlawful acts among tenants, all applications should be matched by HD. Should there be illegal transactions, concerned tenants would be liable to tenancy termination and prosecution.

5. Compared with the existing transfer schemes, the PRH Swap Scheme can provide an effective mechanism for flat transfer. Through the matching platform, applicants can have more transfer choices and higher chance of successful transfer to flats meeting their preferences. On the other hand, the flats earmarked for flat transfer can be released to expedite flat allocation to PRH applicants, thus shortening the waiting time for PRH units. Assuming that 1% of the tenants in need succeeded in swapping every year, the number of beneficiary households would amount to 7,600. If the PRH Swap Scheme could reduce half of the flats earmarked for transfer schemes, 3,000 more PRH flats could be allocated to applicants awaiting PRH and shorten the waiting time.

**(c) Adjust the rents of “well-off” tenants according to household income**

6. The subsidy of PRH is determined according to the economic conditions of tenants. Tenants in better economic conditions should enjoy less PRH subsidy. Currently, tenants who have been living in PRH for ten years or more are required to declare household income biennially. Households with monthly income exceeding the prescribed income limits 2 to 3 times, and 3 times or above, are required to pay 1.5 times and double net rent plus rates respectively. However, the existing rent adjustment mechanism is rather sketchy. Some households with higher income may be spending a lower rent-to-income expenditure than other households with lower income. In view of this, the Centre recommends HA to adjust PRH rents according to household income. For example, households with total monthly income exceeding the PRH income limits 1.5 to 2.0 times have to pay 1.5 times net rent plus rates, households exceeding the limits 2.0 to 2.5 times have to pay double net rent plus rates, and so on until market rent. The recommendation helps the Government determine the extent of housing subsidy according to tenants' economic conditions and ensure the rental expenditure to tenants' income can be maintained at a certain level, so that resources are allocated to those in genuine need. Moreover, the Centre suggests the Government to review well-off tenants policies and make them reasonable and compassionate. To foster mutual care between the elderly and the young, HA may consider relaxing the

income and asset limits of the tenants with elderly members, thereby encouraging the young to take care of the elderly in their families.

**(d) Offer HOS discount according to the economic conditions of Green Form applicants**

7. To better utilise PRH resources, HA implemented the “well-off tenants policies” on the one hand, and encouraged PRH tenants to release their subsidised rental flats after achieving home ownership via SSF on the other hand. As the price of HOS flats is linked to the price of private domestic units which has been rising sharply, PRH tenants can hardly afford to buy HOS flats under the current price-setting mechanism. In response to PRH tenants’ strong demand for SSF at a price lower than HOS, HA launched the “Green Form Subsidised Home Ownership Pilot Scheme” (GSH) which provides a higher discount than HOS in May 2015. Although GSH flats are sold to households with Green Form (GF) status (mainly PRH tenants, and people with verified eligibility for PRH) at a lower price, the sale of GSH flats would reduce the number of PRH units and affect the waiting time for PRH allocation. In this regard, the Centre recommends the Government to amalgamate GSH with HOS and provide a multiple-tier pricing arrangement, enabling GF applicants to purchase HOS according to their affordability.

8. HOS flats are sold at a discount (30%) to market value under the prevailing HOS pricing policy. HA may maintain the same discount for GF applicants with higher income and provide a higher discount for those with lower income. For example, a PRH household comprising two or more members and with a monthly income of \$31,000 to \$36,000, could be offered a discount of 40%, while a higher discount rate of 50% could be offered to those with a monthly income of less than \$31,000. Nevertheless, the amount of assets of the applicants should also be taken into account in determining the discount rates. GF applicants having a lower household income but with a certain amount of assets could not enjoy a higher discount rate. In line with the objective of GSH, the recommendation helps ensure that a progressive housing ladder is built and GF applicants could achieve home ownership and at the same time release PRH flats for those awaiting PRH allocation.

### **(e) Allow SSF owners with unpaid land premium to rent out their flats**

9. SSF is a form of housing subsidy and buyers have enjoyed the benefit of discount when buying. The owners cannot sell, let or assign the flats in the open market before clearing the assessed premium. The relevant restrictions hinder the turnover of SSF, resulting in the ineffective use of the resources. As at the end of March 2016, there were about 268,500 HOS flats with unpaid land premium, accounting for about 83% of the flats sold. In order to assist the owners of SSF to settle premium payment and remove the alienation restrictions, the Hong Kong Mortgage Corporation Limited launched the “Premium Loan Insurance Scheme” in September 2015 which provides a finance source for the relevant owners to pay the land premium. However, the scheme involves notable loan costs, including mortgage premiums, interest, legal and administrative expenses, etc., and only opens to applicants aged 50 or above, the scheme has therefore received a lukewarm response from the public.

10. It would be a pity in the event that SSF with unpaid land premium are left idle due to various reasons. The Centre recommends the Government to allow the owners to rent out their flats in the open market, with the rental income shared with HA based on the percentage of unpaid land premium. The vacancy rate of private domestic units was 4%; if that applies to HOS flats with unpaid land premium and half of the owners are interested in renting out their flats, the supply of rental units would increase by about 5,400, equivalent to about 40% of private domestic completions in 2016. If each owner pays \$3,000 per month to HA, HA would be able to share about \$160 million of rental income a year. In addition, in view of the acute demand of PRH in recent years, HA may consider subsidising eligible PRH applicants to rent such flats so as to help relieve their rental burden. Overall, the recommendation allows owners to rent out their flats and receive a rent income, as well as helps increase the supply of rental units which relieves rental pressure, while at the same time reducing HA’s financial burden, thereby benefiting the owners, tenants, and the Government and resulting in a win-win situation for all three parties.

### **(f) Allow SSF owners to pay land premium by instalments**

11. Currently SSF owners are bound by the restriction that unless they have paid the land premium, they cannot freely sell or let their flats. While property prices are soaring, SSF owners can hardly pay a huge amount of land

premium in one lump sum, thus limiting the circulation of relevant units in the open market and making it difficult for the Government to recover housing subsidy, thereby resulting in the ineffective utilisation of housing resources. In view of this, the Centre recommends the Government to allow SSF owners with unpaid land premium to pay the premium by instalments at the market value.

12. The proposal of paying the land premium by instalments provides owners more flexible arrangements. They can decide when to pay and how much to pay based on the market condition and their financial ability, thereby reducing the heavy burden of one-off payment. The proposal is not only beneficial to owners of flats with unpaid land premium, but also helps de-freeze the market value of the properties and allows the Government to recover subsidies placed on these units for the future development of public housing. In the long term, it enhances the circulation of flats with paid premium in the open market. Assuming that one-tenth of the owners of HOS flats with unpaid premium would complete paying the land premium in the next twenty years and the amount of land premium is \$1 million for each unit, HA would get back about \$1.3 billion per year, which is equivalent to the alienation premium of the Home Ownership income in the 2015/16 financial year. To help strengthen the incentive for owners to pay back the land premium, the Government may further put a cap on the repayment, which allows owners to pay the land premium at the value once the premium assessment is confirmed or at the market value in later instalments as appropriate. The Administration may also consider making the 'cap' time-limited, e.g. ten years, so as to avoid owners to benefit from the appreciation of the property market by continuously locking the land premium payment.

## Overview of the policy recommendations

Policy recommendations	Problems to be addressed	Desired outcome
(a) Regularise checking to screen out ineligible PRH applicants	<p><u>The Government cannot grasp the actual demand for PRH</u></p> <ul style="list-style-type: none"> <li>• In view of the lengthening average waiting time for PRH, the eligibility of PRH applicants may stay unchecked for a long time since they are put on the Waiting List, thus resulting in ineligible applicants on the Waiting List</li> </ul>	<ul style="list-style-type: none"> <li>• The Government can grasp the demand of PRH more accurately for relevant planning to cater the needs of PRH applicants</li> </ul>
(b) Establish an online platform for implementing the PRH Swap Scheme	<p><u>PRH tenants find it difficult to be successfully transferred</u></p> <ul style="list-style-type: none"> <li>• The existing PRH resources and units for allocation is in acute shortage</li> <li>• The existing transfer schemes set various restrictions</li> <li>• The implementation of existing transfer schemes is restricted and cannot well cater for tenants' needs</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the option and chance of successful transfer for tenants with transfer needs</li> <li>• Allocate the reserved units for transfer to PRH applicants and shorten the waiting time for PRH</li> </ul>

Policy recommendations	Problems to be addressed	Desired outcome
(c) Adjust the rents of “well-off” tenants according to household income	<p><u>The rent policy for “well-off” tenants is too lenient</u></p> <ul style="list-style-type: none"> <li>• The existing rent adjustment mechanism for “well-off” tenants is rather sketchy. Some households with higher income may be spending a lower rent-to-income expenditure than other households with lower income</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure subsidy of PRH is provided according to the economic conditions of tenants, so that resources are allocated to those in genuine need</li> </ul>
(d) Offer HOS discount according to the economic conditions of GF applicants	<p><u>PRH tenants can hardly afford to buy HOS flats</u></p> <ul style="list-style-type: none"> <li>• The price of HOS flats is linked to the price of private flats which has been rising sharply. PRH tenants can hardly afford to buy HOS flats under the current price-setting mechanism</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure assistance is provided based on the economic conditions of GF applicants, and assist them to buy their own homes while freeing up PRH resources for the PRH applicants</li> </ul>

Policy recommendations	Problems to be addressed	Desired outcome
<p>(e) Allow SSF owners with unpaid land premium to rent out their flats</p>	<p><u>Turnover of flats with unpaid land premium is low</u></p> <ul style="list-style-type: none"> <li>● Idle SSF with unpaid land premium cannot be let, resulting in the ineffective use of the housing resources</li> </ul>	<ul style="list-style-type: none"> <li>● Owners can rent out the vacant flats</li> <li>● Increase the supply of rental units which relieves rental pressure</li> <li>● Eligible PRH applicants can enjoy a lower rent</li> <li>● Reduce HA's financial burden</li> </ul>
<p>(f) Allow SSF owners to pay land premium by instalments</p>	<p><u>Owners find it difficult to pay the huge amount of land premium in a lump sum</u></p> <ul style="list-style-type: none"> <li>● The amount of land premium increases amid the surge in property prices</li> <li>● The current premium payment system restricts the circulation of flats with unpaid land premium in the open market, and the Government can hardly recover housing subsidy, resulting in the ineffective use of housing resources</li> </ul>	<ul style="list-style-type: none"> <li>● Owners can flexibly decide the time and amount of payment</li> <li>● The Government can gradually get back housing subsidy for the development of public housing</li> <li>● Promotes the circulation of flats with paid premium in the open market in the long run</li> </ul>

## **Concluding remarks**

13. At present, about half of the families in Hong Kong are benefiting from public housing, which incurs a significant amount of public resources. As a result of socio-economic development and the people's changing needs and expectations on public housing, the Government should make timely adjustment to capture market changes over time in order to ensure that the resources are well utilised and members of the community have a happy home. The above recommendations aim to encourage a more proactive policy towards the use of public housing resources with a view to maximising its contributions to related households and society as a whole and achieving a win-win situation for all parties. Housing issues are related to land supply and planning, as well as transportation, the provision of community facilities, etc. The Government should actively consult various stakeholders and balance diverse interests of different groups of people in society, so as to take better care of people's housing needs.