

**For discussion
on 30 October 2017**

Legislative Council Panel on Housing

Housing-related Initiatives in the Chief Executive's 2017 Policy Address and Policy Agenda

On 11 October 2017, the Chief Executive delivered the Chief Executive's 2017 Policy Address (the Policy Address). This paper introduces this year's housing-related initiatives as stated in the Policy Address and the Policy Agenda.

Overall policy direction

2. The Policy Address suggests a housing policy comprised of four elements -

- (a) while maintaining respect of a free market economy, the Government has an indispensable role to play;
- (b) the Government will focus on home-ownership and strive to build a housing ladder to rekindle the hopes of families in different income brackets to become home-owners;
- (c) the Government will focus on supply and based on the Long Term Housing Strategy (LTHS), step up the effort in increasing supply of housing units; and
- (d) with insufficient land and when new supply is not yet available, the Government will strive to optimise the existing housing resources to meet the housing needs of families that have long been on the waiting list for public rental housing (PRH) and to help residents in poor living conditions.

3. The Policy Address puts forward a number of initiatives, including suggestions for the Hong Kong Housing Authority (HA) to regularise the Green Form Subsidised Home Ownership Scheme (GSH) and the Scheme to Extend the Home Ownership Scheme Secondary Market to White Form Buyers; as well as formulating details of the "Starter Homes" Pilot Scheme for Hong Kong Residents ("Starter Homes" Pilot Scheme), etc. Besides, the Policy Address

points out that the Government will support and facilitate various short-term initiatives driven and implemented by the community.

Policy initiatives

Continue the implementation of LTHS

4. The Government announced LTHS in 2014, which adopts the “supply-led” and “flexible” principles, with a view to addressing the problem of housing demand-supply imbalance and rebuilding the housing ladder. According to the housing demand projections published in December 2016, the total housing supply target for the ten-year period from 2017-18 and 2026-27 is 460 000 units. With a public/private split of 60:40, the supply targets for public and private housing are 280 000 units and 180 000 units respectively. Assuming that all sites identified can be smoothly delivered on time for housing development, about 236 000 public housing units can be built within this ten-year period, which lags behind the ten-year supply target. To increase supply, the Government will adopt a multi-pronged approach and continue with land use review and rezoning, increase the development intensity, release brownfield sites, develop new development areas and moderate land reclamation, etc., in order to increase housing land supply in the short, medium and long term.

5. According to the framework established under LTHS, the Government will continue to update the long term housing demand projections annually and present a rolling ten-year housing supply target, which will serve as a planning guide for the Government to identify land for housing development. The Government is now making the housing demand projections for the next ten-year period (i.e., from 2018-19 to 2027-28) and will announce the results in late 2017.

Increase public housing supply

Take forward the Public Housing Construction Programme

6. Based on the figures as at end-September 2017, the estimated total public housing production of HA and the Hong Kong Housing Society (HKHS)

in the five-year period from 2017-18 to 2021-22 is about 100 300 units, comprising about 75 200 PRH units and about 25 100 subsidised sales flats (SSFs). Comparing the above projected total public housing production for the five-year period starting from 2017-18 with that of the previous four five-year periods, the projected production shows a steady increase (see table below) -

Year	Total Production
2013-14 to 2017-18	72 800
2014-15 to 2018-19	81 400
2015-16 to 2019-20	91 900
2016-17 to 2020-21	94 600
2017-18 to 2021-22	100 300

7. About 80% of the public housing projects about which we have consulted District Councils in the past seven years (2010-11 to 2016-17) are not “spade-ready”¹. Therefore, the Government needs to go through various processes to turn those sites into “spade-ready” sites and such processes require time and are subject to uncertainties. We also have to face various kinds of difficulties and challenges in the processes, including planning, consultations and relevant technical studies; statutory planning and other procedures; land resumption and clearance; provisioning and reprovisioning of facilities; site formation and infrastructure provision, etc. For projects on which the community has expressed strong views, we often have to spend more time to resolve the issues and face legal challenges occasionally. For projects involving Government-funded works, such as public transport interchange, community hall, and road improvement works, funding approval by the Legislative Council is required. The time required to secure the funding approval often impact the lead time for completion of relevant public housing developments. Moreover, the time required for building construction can vary widely depending on the complexity of the projects. Individual projects may also encounter unforeseeable factors and problems such as shortage of labour, thus affecting the completion date.

¹ Sites that have been properly zoned and do not require resumption, clearance, reprovisioning of existing facilities, site formation or provision of additional infrastructure.

8. The Government is currently striving to increase the production of the latter half of the ten-year period and for the early completion of more public housing units. We call upon the community to maintain an open attitude towards land development and rezoning, and accept trade-offs by according priority to the pressing housing needs of the society, and to support the Government in achieving the long term housing supply target.

Optimise the development potential of public housing site

9. To increase housing production, land resources have to be used more effectively, especially in the case of public housing sites. Where planning and infrastructure permit and environmental quality will not be compromised to an unacceptable extent, the Government will continue to actively explore all feasible ways to optimise the development potential of available public housing sites, so as to increase and expedite public housing production. Relevant departments will continue to maintain close liaison and explore ways to increase public housing supply, as well as submit planning applications to the Town Planning Board for relaxation of plot ratios and building height restrictions of public housing sites if necessary, in order to increase public housing supply.

Enrich the housing ladder

10. The Policy Address puts forth a series of measures to enrich the housing ladder, facilitate the circulation of public housing units and help people move up the housing ladder.

Public housing

PRH

11. It is the objective of the Government and HA to provide PRH for low-income families who cannot afford private rental accommodation. At present, there are about 756 000 households living in PRH units under HA. PRH is the first rung on the housing ladder, and a long-established safety net for the grassroots and low-income families. As at end-June 2017, there were about 150 200 general applications (i.e., family applications and elderly one-person applications), and 127 600 non-elderly one-person applications. The average

waiting time² of general applicants was 4.7 years, which deviated from HA's target of providing the first flat offer at around three years on average. The Government and HA will spare no efforts in reducing the waiting time for PRH. The Government also hopes that different sectors in the community can accord priority to addressing the pressing housing needs of the general public, and support various public housing construction programmes and measures that facilitate the optimised use of PRH resources.

Rational use of PRH resources

12. As pointed out in LTHS, while striving to increase PRH supply, it is also necessary to ensure the rational use of PRH resources. Between October 2016 and March 2017, HA has examined a series of policies and measures to ensure the fair and rational allocation of the limited PRH resources, so that efforts would be focused on allocating resources to those with more pressing housing needs. The review included a number of new measures which did not require changes in policies, such as implementing the Territory-wide Overcrowding Relief Exercise and the Living Space Improvement Transfer Scheme together; and reducing the two rounds of flat selection each year under the Express Flat Allocation Scheme to one round, with a view to enhancing allocation efficiency of PRH and expediting the allocation of units to applicants. HA has also refined the "Well-off Tenants Policies" and implemented the revised Policies with effect from October 2017. Besides, HA continues to adopt a three-pronged approach to tackle tenancy abuse, including the enhancement of inspection; follow-up by the central team on suspected tenancy abuse cases; and publicity and education.

13. Regarding the redevelopment of aged PRH estates, as analysed in the LTHS, redevelopment may increase PRH supply over the long term. However, existing tenants from aged estates will have to be rehoused to other PRH units before the aged estates could be vacated and demolished, followed by the in-situ construction of new PRH. The whole process would take years to complete. During the process, PRH units for rehousing tenants from aged estates would not be available for allocation to other PRH applicants. This will inevitably add further pressure on HA's ability in maintaining the target of providing first

² Waiting time refers to the time taken between registration for PRH and first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirement; the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc.). The average waiting time for general applicants refers to the average of the waiting time of those general applicants who were housed to PRH in the past 12 months.

flat offers to general applicants at around three years on average. Also, the additional flat supply will often realise only towards the latter, if not the last, phase of the redevelopment. Given the current strong demand for PRH, it is undesirable to carry out any massive redevelopment programme which will result in freezing up a large number of PRH units that may otherwise be allocated to households in need who are waiting for PRH. Therefore, HA will continue to carefully consider whether to redevelop estates on a case-by-case basis, with reference to the four basic principles under the redevelopment policy, namely, structural conditions of buildings, cost-effectiveness of repair works, availability of suitable rehousing resources in the vicinity of the estates to be redeveloped, and build-back potential upon redevelopment³. If HA decides to proceed with the redevelopment of an estate or housing block, HA will provide advance notice to affected tenants in line with the past practice.

SSFs

14. SSFs are an important rung on the housing ladder. They are the first step to home ownership for low to middle-income families, and provide opportunities for home ownership to PRH tenants who have improved their financial conditions, thereby vacating their PRH units for allocation to those waiting for PRH.

Increase supply of units under GSH

15. The Government is of the view that helping more relatively better-off PRH households to move up the housing ladder may address their home ownership aspirations at an earlier stage and vacate more PRH units to those with more pressing needs. One way to achieve this is to substantially increase the supply of units under GSH, which specifically caters for Green Formers (mainly PRH households and PRH applicants who have passed the detailed eligibility vetting). HA launched the GSH Pilot Scheme in 2016 and selected a PRH project in San Po Kong (King Tai Court) to provide 857 units for sale to Green Formers at affordable prices. The project was nearly 18 times oversubscribed and all units were sold. PRH units in different districts are gradually vacated for allocation to those waiting for PRH.

³ The newly announced redevelopment of Mei Tung Estate is a case in point. This is a careful decision made after confirming the redevelopment feasibility based on the fact that its redevelopment scale does not need to hold up a large number of units for rehousing, and the substantial flat gain after redevelopment.

16. HA is reviewing the GSH Pilot Scheme. The Government hopes that the review can be completed as soon as possible, and HA's approval can be obtained to regularise the scheme, in order to offer more GSH units for sale. Subject to the outcome of HA's review, a preliminary technical assessment by Government departments suggests that some 4 000 new PRH units in Fo Tan, Sha Tin can be converted into GSH units for sale in late 2018.

Home Ownership Scheme (HOS) and other SSF projects

17. Newly-constructed HOS flats in the housing ladder have all along been providing middle-income White Form applicants with the opportunities to own subsidised flats. The Government will continue to support HA and HKHS to continuously implement HOS and other SSF projects. In 2017, HA pre-sold some 2 100 flats and HKHS will put up another 600 flats for pre-sale. These flats are scheduled for completion in 2018-19 and 2019-20 respectively. HA is preparing for the pre-sale of HOS projects in 2018, including the preparation of land leases and the deeds of mutual covenant, etc. If various preparation work can be carried out smoothly, about 4 400 HOS flats can be offered for pre-sale in 2018. This reflects the Government and the other relevant organisations' determination and efforts in providing SSFs.

Extend the HOS Secondary Market to White Form Buyers

18. In the past, SSFs with premium unpaid in the HOS Secondary Market used to be available for sale to Green Formers only. HA launched the Interim Scheme to Extend the HOS Secondary Market to White Form Buyers (Interim Scheme) in January 2013 with a quota of 5 000, allowing White Form applicants to purchase SSFs with premium unpaid in the HOS Secondary Market. Given the strong demand for SSFs in the society, HA launched another round of Interim Scheme in August 2015 with a quota of 2 500. The second round of Interim Scheme concluded in May 2017. Under the two rounds of the Interim Scheme, a total of around 4 000 White Form buyers successfully achieved home ownership in the HOS Secondary Market.

19. HA is reviewing the Interim Scheme. The Chief Executive suggests that HA regularise the Scheme to enable White Formers to purchase SSFs with premium unpaid. This will allow more home ownership opportunities for White Formers and strengthen the housing ladder. This will also facilitate

owners to sell their flats with premium unpaid and promote the turnover of SSFs. Taking into account the Tenants Purchase Scheme flats with premium unpaid, there are over 380 000 flats available for purchase in the Secondary Market.

HKHS to explore ways to allow owners to rent out SSFs with premium unpaid

20. According to the relevant land leases, owners of SSFs under HKHS have to pay premium to the Government before selling or renting out their flats in the open market. The Government will invite HKHS to explore ways to allow owners to rent out their SSFs with premium unpaid to needy families at below market rentals on a pilot basis. Depending on the concrete proposals put forward by HKHS, the Government will provide policy and other support.

“Starter Homes” Pilot Scheme

21. To re-ignite the hopes of families with higher income of owning a home in the face of hiking property prices, we will introduce the “Starter Homes” Pilot Scheme on the premise that public housing supply will not be affected, in order to enrich the housing ladder and provide people at different income levels with home ownership opportunities.

22. Our initial thinking is to incorporate provisions into the land lease to require developers to pursue mixed developments on sites owned by themselves or bought from the Government, i.e., to design, build and offer for sale a specified number of “Starter Homes” units in addition to private housing units, and to sell these units to target buyers who meet the eligibility criteria set by the Government. The criteria include, among others, Hong Kong residents who have lived in Hong Kong for seven years or more and have never owned any property here. Their income will fall between the income limits for HOS applicants and about 30% higher than such limits. Based on the prevailing HOS income limits, income should range from \$52,001 to \$68,000 for households with two or more members, and from \$26,001 to \$34,000 for singletons. The prices and sizes of “Starter Homes” units will be determined having regard to the affordability of eligible buyers. The alienation restrictions may be tighter than those for HOS. We need to further consider how to deal with the issue of premium payment upon alienation.

23. As “Starter Homes” is a new concept, the Government will discuss with HA and relevant sectors and listen carefully to the views of the community. Details of the scheme will be finalised for announcement in mid-2018. On site selection, we propose to launch a pilot scheme by the end of next year using a residential site at Anderson Road, Kwun Tong on the Land Sale Programme to provide about 1 000 residential units.

Healthy private residential property market

24. The Government has adopted a two-pronged approach to maintain the healthy and stable development of the private residential property market. To address the demand-supply imbalance at source in the long run, the Government has strived to increase the housing land supply through short, medium and long-term means under the “supply-led” strategy. At the same time, the Government has opportunely introduced demand-side management measures to minimise various adverse consequences that may arise from an overheated market.

Increase in supply

25. Based on the preliminary assessment of private residential developments known to have started or to be started on disposed sites, the private sector will, on average, produce about 20 300 private residential units annually in the next five years, representing an increase of about 70 per cent over the yearly average (12 000 units) of the past five years. The Government will continue rolling out lands for housing to ensure sufficient and stable land supply in the long term to respond to the home ownership aspirations of different social strata.

Demand-side management measures

26. In view of the overheated property market in recent years owing to severe housing demand-supply imbalance and the ultra-low interest rates environment with abundant liquidity, the Government has introduced several rounds of demand-side management measures, including the Special Stamp Duty (SSD), Buyer’s Stamp Duty (BSD), Doubled ad valorem Stamp Duty (DSD), and New Residential Stamp Duty (NRSD), so as to combat short-term

speculative activities, curb external demand and reduce investment demand. In addition, the Government announced to, with effect from 12 April 2017, tighten the major exemption arrangement provided for Hong Kong permanent residents (HKPRs) under the NRSD regime⁴, in order to prevent local investors from acquiring multiple residential properties under a single instrument to avoid NRSD. In face of the continued exuberance in the local housing market and that property prices have been out of line with economic fundamentals with heightened risk of a bubble, it is necessary for the Government to maintain the various demand-side management measures to guard against further increase in the risk, and to ensure the healthy and stable development of the property market.

27. According to statistics of the Inland Revenue Department, residential transactions subject to DSD/NRSD accounted for about 11% of total transactions from December 2016 to September 2017, which was sharply below the 26% from January to November 2016 (reflecting market situation before the introduction of NRSD). During the same period, among residential property transactions where buyers are HKPRs, about 93% of the cases involved buyers who did not own any other residential property in Hong Kong at the time of transaction, which was significantly higher than the 75% before the introduction of NRSD (i.e., from January to November 2016). This demonstrates that NRSD remains prominently effective in reducing investment demand. As for transactions involving acquisition of multiple residential properties under a single instrument that are subject to the lower ad valorem stamp duty rates at Scale 2, the ratio of these transactions to the total transactions has lowered from about 2.4% and 2.5% in March and April 2017 respectively to 0.1% in September 2017, illustrating that the tightened exemption arrangement help reduce such transactions.

28. The Government will remain vigilant and will continue to closely monitor developments in the property market and the evolving external environment.

⁴ Under the tightened exemption arrangement, acquisition of a single residential property (whether with a car parking space or not) under a single instrument by a HKPR who is acting on his/her own behalf and is not a beneficial owner of any other residential property in Hong Kong at the time of acquisition will continue to be subject to the lower ad valorem stamp duty rates at Scale 2. However, if the buyer concerned acquires more than one residential property under a single instrument, the transaction will no longer be exempted, and will be subject to the NRSD rate of 15%.

Improve quality of living in PRH

Provide a safe and comfortable home environment for the elderly

29. Over the years, universal design has been fully adopted in new PRH projects. Such design covers facilities in communal areas as well as those inside the flats, such as flat entrances, kitchen doors and bathroom doors. Similarly, HA has endeavoured to improve relevant facilities in old PRH, and modify facilities inside PRH units according to the needs of individual elderly tenants. Also, HA plans to increase the provision of elderly recreational facilities in around 100 PRH estates with a higher proportion of elderly tenants, or modify the use or design of public space in those estates based on tenants' needs. HA is currently conducting relevant works in 82 estates and will commence improvement works in the remaining estates in phase. The works are expected to complete in 2019.

Implement various arrangements to encourage mutual care among family members and caring for the elderly

30. In full support of the Government's elderly policy of 'Ageing in Place', and with a view to strengthening family cohesion, HA adopts various housing arrangements to encourage young households to live with or live near their elderly family members. Such schemes include Harmonious Families Priority Scheme, Harmonious Families Addition Scheme, Harmonious Families Transfer Scheme and Harmonious Families Amalgamation Scheme. With reference to the experience gained from the implementation of these schemes, HA will further review their implementation and make appropriate refinements where necessary.

Improve barrier-free facilities in PRH estates

31. HA has been implementing the Lift Addition Programme (LAP) since 2008 to add lifts in external common areas, in PRH blocks without lift services, and next to existing footbridges within boundaries of PRH estates, with a view to improving pedestrian access within PRH estates and supporting the Universal Accessibility policy of the Government. LAP also provides barrier-free access to facilitate access of residents, particularly for the elderly and disabled persons who are living in PRH estates built in hilly areas. LAP involved the addition of

85 lifts, six escalators and 28 footbridges in 33 existing PRH estates. The majority of these projects have already been completed while the remaining ones are expected to be completed by 2019.

32. HA will continue to listen and give due consideration to residents' proposals to add lifts in existing PRH estates. If the proposals involve other stakeholders, such as other government departments or co-owners of the estates (e.g. other owners of residential units or commercial facilities), HA will discuss with them, and proceed to conduct feasibility studies and subsequent procedures after a consensus is reached among all parties concerned.

Implementing various environmental initiatives in PRH estates

33. HA endeavours to provide leisure area and green facilities in every public housing development without affecting housing production. HA has been striving to carry out public housing developments in a sustainable manner through adopting various approaches at the planning and design stage in harmony with the natural environment, as well as adopting a site-specific design approach to fully utilise natural resources. The disposition of individual public housing development is optimised according to the results of the air ventilation study. HA will continue to apply the micro-climate studies introduced in 2004 in every new public housing development, in order to minimise energy consumption with reference to the environmental and climatic characteristics of individual districts. These initiatives will also enable residents to enjoy more natural ventilation and daylight.

34. HA will continue to implement environmental-friendly measures in building designs and facilities to save water and energy. For instance, twin water tanks are used to reduce water consumption in the tank cleansing process; gearless lifts and lift regenerative power facilities are also adopted to reduce energy consumption. In order to further assure and enhance energy performance of public housing blocks, HA has adopted LED lighting certified by the local product certification scheme as the standard lighting facilities in communal areas of domestic blocks of new development projects. As for existing PRH estates, HA has also implemented energy saving measures, to reduce electricity consumption in communal areas of PRH estates.

35. HD has been collaborating with the Environmental Protection Department (EPD) and the recycling industry to promote domestic waste reduction and recycling of waste among tenants. HD has implemented a number of initiatives at PRH estates with promising results, such as the Source Separation of Domestic Waste Scheme and the Programme on Source Separation of Glass Bottles at PRH Estates championed by EPD. HD will also continue to partner with green groups through the Green Delight in Estates programme to provide waste reduction advice to PRH tenants and encourage them to conduct waste separation at source. In support of EPD's pilot project, HA will conduct waste separation at source for food waste in its nine shopping centres and markets, and transport such waste for further handling to the Organic Waste Treatment Facilities, the construction of which will soon be completed. The pilot project is expected to commence in early 2018.

Enhancing the quality assurance mechanism

36. Since the "excess-lead-in-water" incident, the Water Supplies Department has introduced a series of new measures to enhance the regulatory control on the construction of inside service, to ensure the safety of drinking water. For example, the contractors are required to conduct water sampling tests for four heavy metals (lead, cadmium, chromium and nickel) upon completion of installation of inside service. During inspection of the inside service, the Water Authority (WA) also carries out lead content inspection for the solder joints. HA has fully implemented these measures by the WA. In addition, HA has also implemented a series of enhancement measures to strengthen its quality assurance system for plumbing installation works from contract specifications, delivery and verification of materials, monitoring during construction, to testing upon completion. Apart from water quality, we have also completed a risk assessment exercise on about 2 300 building materials and developed corresponding risk treatment measures. Major risk treatment measures for all materials were rolled out in the third quarter of 2017. We will review the quality control systems regularly to check and monitor whether the materials comply with the specifications, with a view to maintaining and improving the effectiveness of the system.

37. On the other hand, HA's contractors will continue to replace the non-compliant pipes in the 11 PRH estates affected by excess-lead-in-water. Rectification works in the common areas were completed in the second quarter

of 2017, while the works inside units have started gradually since April 2017. We will continue to monitor the quality and progress of the rectification works, and ensure that the works can be completed as soon as possible.

Transport and Housing Bureau
October 2017