Long Term Housing Strategy
Annual Progress Report 2017

Purpose

This paper sets out the latest progress of key aspects of the Long Term Housing Strategy (LTHS) as at December 2017.

Background

2. The Government formulated LTHS following deliberation of the LTHS Steering Committee and a three-month public consultation. Announced in December 2014, LTHS adopts a supply-led strategy and establishes three major strategic directions to gradually avert the current supply-demand imbalance –

(a) to provide more public rental housing (PRH) units and to ensure the rational use of existing resources;

(b) to provide more subsidised sale flats (SSFs), expand the forms of subsidised home ownership and facilitate market circulation of existing stock; and

(c) to stabilise the residential property market through steady land supply and appropriate demand-side management measures, and to promote good sales and tenancy practices for private residential properties.

The 2017 Policy Address reaffirms the Government's commitment towards increasing the supply of housing units on the basis of LTHS.

3. According to LTHS, the Government updates the long term housing demand projection annually and presents a **rolling ten-year housing supply target** to capture social, economic and market changes over time, and make timely adjustments where necessary. This supply target is determined not by the supply of land available at the time, but by quantitative projections of

different demand components.[1]

4. This annual exercise serves as an important policy tool to enable the Government to plan ahead on a continuing basis, on developing land and housing aimed at the supply target, in order to meet the housing needs of the community over the long term. Whether we can identify adequate land to meet the supply target depends not only on the efforts of Government departments, but also on factors which are beyond our control. The relevant work and challenges confronting us are set out in the ensuing paragraphs.

Annual update of the long term housing demand projection and the ten-year supply target

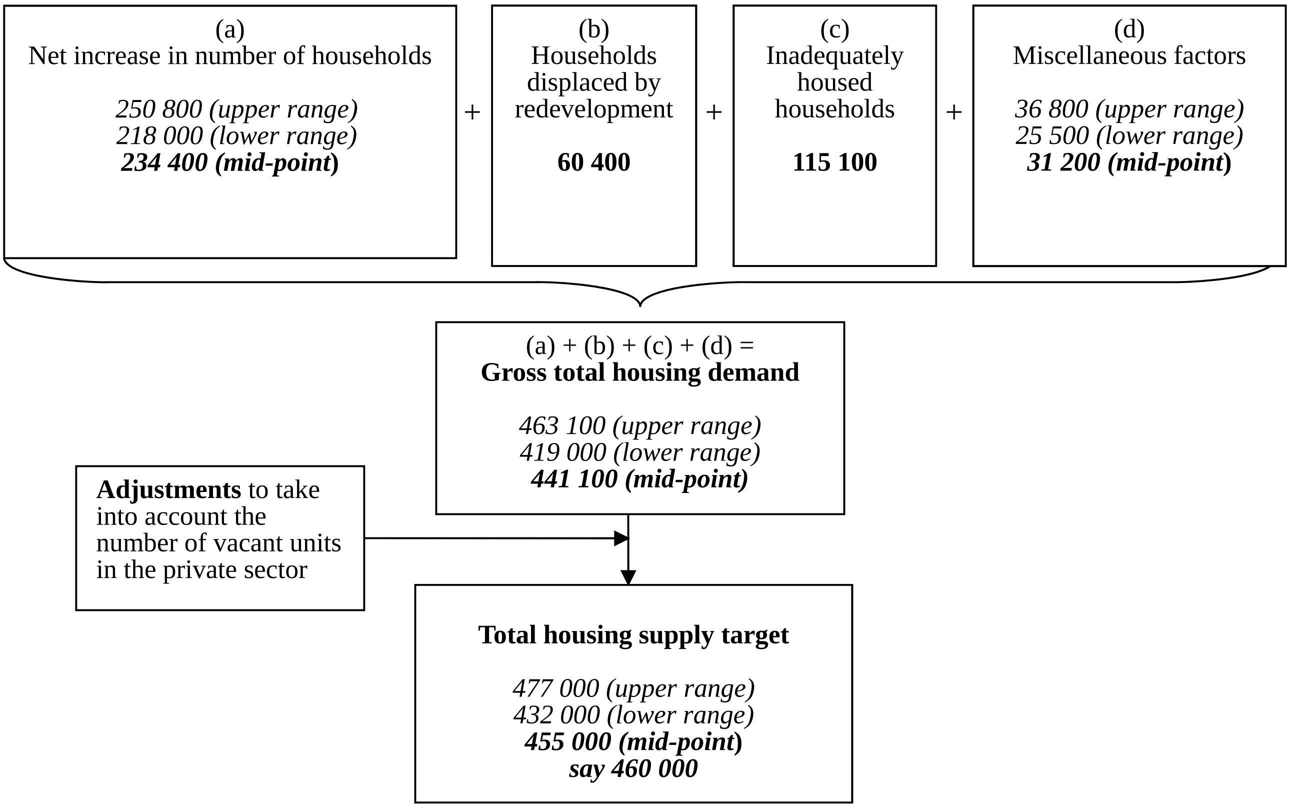
Latest projection

5. Based on the latest projection[2], the long term housing demand for the ten-year period from 2018-19 to 2027-28 ranges from 419 000 to 463 100 units, with the mid-point being 441 100 units. Adding to that a margin for vacancy of private flats[3], the ten-year total housing supply target should range from 432 000 to 477 000 units, with the mid-point being 455 000 units. This is rounded up to **460 000 units**, and adopted as the **total housing supply target for the ten-year period from 2018-19 to 2027-28**. The projection results are set out in detail at **Annex**, and summarised in the following diagram –

[1] For example, as the most prominent demand component, the net increase in number of households is derived based on the latest domestic household projections conducted by the Census and Statistics Department (C&SD) independently after each Population Census/By-census and once during the intercensal period.

[2] The 2016 Population By-census conducted by the C&SD has updated the domestic household projections and other variables derived from the last Population Census. Such updates are reflected in this year's updating of the housing supply target.

[3] Based on about 43 700 vacant private residential units as at end-2016, and the average vacancy rate of about 4.3% from 2007 to 2016.



Breakdown of the Supply Target

6. In the past three ten-year projections, the overall supply target was divided into public housing (comprising PRH and SSFs) and private housing. To underline the Government's commitment in increasing public housing supply while ensuring the stable and healthy development of the private market, we will **maintain the public/private split of 60:40 for the supply of new housing units** for the ten-year period from 2018-19 to 2027-28. Accordingly, the supply targets for public and private housing will be 280 000 units and 180 000 units respectively.

7. In last year's projection, within the public housing supply target of 280 000 units for the ten-year period from 2017-18 to 2026-27, the split between PRH and SSFs was 200 000 units and 80 000 units, representing a balance between housing for those who need PRH, and those who need subsidised housing. For the ten-year period from 2018-19, we will maintain this ratio of 200 000 PRH units and 80 000 SSFs.

8. The above ratio between public and private housing, as well as the ratio between PRH and SSFs, reflect the current policies and housing programmes. They do not reflect pilots for new housing programmes for which policy confirmation is pending. LTHS envisages possible developments that reinforce the housing ladder, expand the forms of subsidised home ownership, and introduce supplementary schemes of SSFs, etc.[4] Such developments have so far included the scheme enabling White Form applicants to buy SSFs with premium unpaid, which the Hong Kong Housing Authority (HA) decided to regularise in November 2017 (details under paragraphs 44 to 45 below). Other developments that may have to be reflected in the supply targets in due course are HA's pilot for the Green Form Subsidised Home Ownership Scheme (GSH) (details under paragraphs 36 to 38 below) and the Government's proposal for a "Starter Homes" (SH) Pilot Scheme for Hong Kong Residents (details under paragraphs 41 to 43 below).

Looking ahead

9. The Government will continue to increase housing supply on the basis of LTHS. As the projection model for the rolling ten-year total housing supply target involves many variables, we will continue to keep in view the evolving environment and consider how best to reflect new developments in the projection methodology as well as the supply target each year.

Housing land supply and flat production

Latest position

Public housing

10. Based on information as at end-September 2017, the total public housing production of HA and Hong Kong Housing Society (HS) in the five-year period from 2017-18 to 2021-22 is about **100 300 units**, comprising 75 200 PRH units and 25 100 SSFs. Comparing the above projected housing production with that for the previous four five-year periods (i.e. the five-year

[4] See paragraph 5.3 of LTHS.

periods counting from 2013-14 onwards), **the projected five-year production shows a steady increase** –

	HA housing production (PRH + SSFs)	**HS housing production (PRH + SSFs)**	**Total housing production (PRH + SSFs)**
2013-14 to 2017-18	71 600 (68 400 + 3 300)	1 100 (100 + 1 000)	72 800 (68 500 + 4 300)
2014-15 to 2018-19	79 300 (69 400 + 9 800)	2 100 (100 + 2 000)	81 400 (69 600 + 11 800)
2015-16 to 2019-20	88 200 (73 200 + 15 000)	3 700 (1 100 + 2 600)	91 900 (74 300 + 17 600)
2016-17 to 2020-21	91 900 (70 800 + 21 100)	2 700 (1 100 + 1 600)	94 600 (71 900 + 22 700)
2017-18 to 2021-22	96 800 (73 300 + 23 400)	3 500 (1 900 + 1 600)	100 300 (75 200 + 25 100)

Note: Figures may not add up to total due to rounding.

11. As regards land supply for public housing, as of now, **assuming that all sites identified can be smoothly delivered on time for housing development, the Government has identified land for the construction of about 237 000 public housing units for the ten-year period from 2018-19 to 2027-28. This lags behind the ten-year supply target of 280 000 units.**

Private housing

12. As for private housing, the supply target of 180 000 units for the ten-year period from 2018-19 to 2027-28 will continue to be met through various land supply sources, including Government land sale, railway property development projects, projects of the Urban Renewal Authority and private development/redevelopment projects. Based on the latest projection as at end-September 2017, **the supply of first-hand private residential property market for the coming three to four years is about 97 000 units**.

Measures to expedite/increase overall housing land supply

<u>Short to medium term</u>

13. Delivering the ten-year housing supply target remains a huge challenge for both the Government and the community. There is no easy or painless option to increase or expedite land supply, especially in the short run. Various measures are already being pursued in full steam under the Government's multi-pronged approach to increase land supply. Alongside the Government's efforts, support from the community is also indispensable to facilitate timely completion of various public housing projects to meet the housing supply target.

14. Subject to the completion of necessary studies and statutory processes, the Government hopes to deliver land supply capable of producing some 380 000 housing units in the short to medium term.

Task Force on Land Supply

15. Land use planning and development require sustained efforts, catering not only to imminent demands but also future needs. According to the projections promulgated under the "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030" (Hong Kong 2030+) Study to examine the strategic planning blueprint for Hong Kong, there would be an estimated shortfall of at least 1 200 hectares of land for housing, economic and Government, Institution and Community facilities over the next 30 years. While continuing with on-going efforts, the Government wishes to engage all sectors of the community to consider the difficult questions of land supply in an inclusive, open and rational manner. To this end, the Chief Executive appointed the Task Force on Land Supply in September 2017 to lead a major public engagement (PE) exercise, which aims at examining the pros and cons of different land supply options in a thorough and macro manner, with a view to achieving the broadest consensus. The Task Force is examining the different land supply options. Tentatively, the Task Force plans to commence the PE exercise in the first half of 2018, and to submit its recommendations on an overall land supply strategy to the Government by the end of November 2018.

Streamlining development control

16. A steering group will be formed under the Development Bureau to explore how best to consolidate and rationalise the standards and definitions adopted by the relevant departments under the Bureau (namely Buildings Department, Lands Department and Planning Department) in scrutinising development proposals, such that the approval process can be streamlined without prejudicing the relevant statutory procedures and technical requirements. Relevant professional groups will be engaged in the process.

Land use review

17. The Planning Department has identified through on-going land use review in the last few years over 210 sites with housing development potential in the short to medium term, capable of providing over 310 000 flats in total (with 70% for public housing). These include 42 sites under the various initiatives to increase land supply as announced in the 2013 Policy Address (providing about 40 000 flats, with over 60% for public housing), about 150 sites announced in the 2014 Policy Address (providing over 210 000 flats, with over 70% for public housing), and the additional 26 sites announced in the Policy Address in January 2017 (providing over 60 000 flats, with over 80% for public housing).

18. As at early November 2017, among the some 210 sites, 103 had been zoned or rezoned for housing development, estimated to provide a total of about 122 200 flats (including about 74 900 public housing flats and about 47 300 private housing flats). Another 41 sites have their statutory rezoning procedures initiated. Subject to completion of the rezoning, these sites are estimated to provide a total of about 74 100 flats (including about 69 100 public housing flats and about 5 000 private housing flats).

19. The Government will continue with the efforts in taking forward the rezoning procedures of the relevant sites, and will carry out land use reviews in suitable areas so as to identify more developable sites for housing and other uses in the short to medium term. We will consult the District Councils (DC) and relevant stakeholders on the development of individual sites as and when they are ready, and submit to the Town Planning Board (TPB) for consideration.

Medium to long term

New development areas (NDAs) and new town extension

20. NDAs and new town extensions are major sources of land supply to meet the medium to long-term housing, social and economic development needs of Hong Kong. We will keep pressing ahead with the implementation of the NDAs and new town extensions in Kwu Tung North (KTN)/Fanling North (FLN), Tung Chung, Hung Shui Kiu (HSK) and Yuen Long South (YLS) to ensure adequate and steady stream of land supply. These development projects together are expected to provide about 200 000 housing units and over 8.6 million square metres of industrial and commercial floor area in phases starting from 2023. Coupled with major railway development projects, the land supply in the medium to long term is capable of providing some 220 000 housing units.

21. The KTN and FLN NDAs will provide about 60 000 new units for an additional population of about 173 000 and creating about 37 000 new jobs. The proportion of public housing, including PRH and SSFs, will be about 60%. The KTN and FLN NDAs development will be implemented in phases for first population intake expected to take place in 2023 at the earliest.

22. The Government is taking forward the implementation of Tung Chung New Town Extension (TCNTE), turning Tung Chung into a distinct and more comprehensively developed new town. TCNTE will provide about 49 400 new flats with the first population intake expected in 2023. Detailed design and site investigation have already commenced in June 2016. After the funding approval by the Finance Committee of the Legislative Council (LegCo) in October 2017, the Government will start reclamation works in Tung Chung East as soon as possible.

23. The HSK NDA, positioned as a Regional Economic and Civic Hub for the north-west New Territories, will provide about 441 hectares of developable land. The HSK NDA will be the next generation new town for a total population of about 218 000 (including a new population of about 176 000). It will provide about 61 000 additional flats and 150 000 job opportunities. The Hung Shui Kiu and Ha Tsuen Outline Zoning Plan was gazetted in May 2017. The first population intake is expected in 2024.

24. The Government will continue to study the development of the degraded brownfield land in YLS for housing and other uses with supporting infrastructure and community facilities, and improving the local rural environment. The Recommended Outline Development Plan was promulgated in August 2017, proposing a new population of about 85 400 in about 28 500 new flats (of which 61% for public housing). The proposal would also generate about 10 500 job opportunities. The first population intake is expected in 2027.

Development of the New Territories North

25. In light of the findings of the Preliminary Feasibility Study on Developing the New Territories North and the views received during the public consultation on the New Territories North (NTN) strategic growth area conducted within the framework of "Hong Kong 2030+", we are exploring the scope for developing a new town of similar scale as Fanling/Sheung Shui in New Territories North. The two development scenarios proposed in the preliminary feasibility study could accommodate population intake from 255 000 to 350 000, covering a total development area of about 720 hectares.

Exploring other long-term land supply options

26. In the longer term, the Government will continue to explore new sources of developable land, including near-shore reclamation projects, rock cavern and underground space developments. In particular, the Ma Liu Shui reclamation project will take into account the planning of the adjoining site vacated after relocation of the Sha Tin Sewage Treatment Works to caverns, with a view to providing land for development of high technology and knowledge-based industries, housing and other uses.

27. The Government is taking forward various studies, development projects and conservation work progressively in accordance with the "Sustainable Lantau Blueprint", including the strategic studies for constructing artificial islands in the Central Waters between Hong Kong Island and Lantau Island (including the East Lantau Metropolis (ELM)). The basic concept of ELM is to create artificial islands by reclamations in the waters near Kau Yi

Chau and the Hei Ling Chau Typhoon Shelter, and to make better use of the under-utilised land in Mui Wo, with the aim of creating a smart, liveable and low-carbon development cluster accommodating a population of about 400 000 to 700 000.

Major challenges confronting public housing supply

28. Based on the latest estimate set out in paragraph 11 above, we have yet to secure all the sites needed to meet the public housing supply target. Alongside the Government's efforts in securing sites for public housing development, HA has been working hard to fast-track the development process where possible. HA has been successful in pushing forward "spade-ready"[5] sites, including completing the first batch of six newly-built Home Ownership Scheme (HOS) projects and the Eastern Harbour Crossing Site Phase 7 in around five years. However, such "spade-ready" sites are rare and we have virtually used up all spade-ready sites at hand. About 80% of the projects for which we have consulted DCs in the past seven years (from 2010-11 to 2016-17) are not "spade ready".

29. With the lack of "spade-ready" sites, the Government has to turn to sites that are not "spade-ready" for public housing developments. We have also been striving to expedite the development process of "non-spade-ready" sites[6]. However, "non-spade-ready" sites take more time to develop partly because HA needs to go through various processes to make them "spade-ready", and such processes are subject to uncertainties. The processes involved and how they affect HA's efforts are summarised as follows –

(a) **Planning and consultations** – To develop a project, technical studies are required to collect data, explore options, and assess how to overcome impacts from the proposed development. For straight forward cases, such

5 "Spade-ready" sites refer to those that have been properly zoned, and do not require resumption, clearance, reprovisioning of existing facilities, site formation or provision of additional infrastructure.

6 For example, although Queen's Hill Site 1 is government land and the site is partially formed, it lacks basic infrastructure to support public housing development. Besides, some historical buildings are found within the site. Considerable lead time is required to carry out the technical assessments and go through the statutory procedures before the site can be developed to deliver 12 000 public housing units. Based on the latest estimation, under a fast-tracked programme, the first phase of Queen's Hill Site 1 will be completed in 2020-21 the earliest, with a lead time of around seven years.

studies generally take about 12 months, but it may take more time for larger-scale or complex cases.[7] When findings of technical studies are ready, relevant departments and HA will conduct consultations. Time needed to complete the consultation exercise varies depending on individual situations[8];

(b) **Statutory planning and other procedures** – The Government needs TPB's approval for rezoning of non-residential sites. The process of statutory rezoning normally takes about 11 months to complete; but when the rezoning involves controversial issues and attracts substantial amount of representations or comments, an extension of up to 6 months may be required.[9] Furthermore, in recent years some TPB's decisions have been subjected to judicial reviews (JR).[10] At the same time, development projects need to undergo other statutory procedures, such as environmental impact assessment, road works, drainage works, etc., to ensure their compliance with the statutory requirements and that they would not bring about unacceptable impacts. Public engagement and consultation will also

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7 A recent example is Pokfulam South. The development area has been reduced to lessen the impacts on ecological environment, natural stream courses, hiking trails, and the Old Dairy Farm remains, etc. Therefore, extra time is required for refining the layout options and ascertaining the technical feasibility of the revised site layout to maintain the original flat production. The study started in early 2015 and was only completed recently, which lasted for more than two years.

8 Consultations often start with informal consultations, followed by formal public consultations. For straight forward cases like Lai Cho Road in Kwai Chung and Tung Chung Area 54, it may take two to three months for the consultations to complete. However, for complicated cases, refinement of layout options may be required to address the views of different stakeholders. For example, Kwun Tong DC has been consulted six times about the Hiu Ming Street project in Kwun Tong since March 2014, and consultation with Tai Po DC on Chung Nga Road West development project has also been on-going since July 2014. To date, we are still endeavouring to address the concerns raised by the relevant DCs.

9 For example, after considering the representations and comments received for the Tsing Hung Road project in Tsing Yi, TPB decided to revert the northern portion of Tsing Hung Road from "Residential (Group A) 4" to "Open Space". The expected flat production reduced by about 1 000 units as a result. Another more recent case is On Muk Street Phase 1 in Shatin. TPB considered that the long-term use of the site should be considered in the context of the use of the wider area and should be reviewed comprehensively with the entire strip of "Open Space" zone along the river channel when the way forward regarding the relocation of Kitchee Centre becomes clearer. TPB hence decided to rezone the site back to "Open Space", in order to meet or partially meet relevant adverse representations. Depending on TPB's consideration of the further representations received and its decision, we are unable to estimate the completion date of the whole On Muk Street project at this juncture.

10 For example, in the case of Tai Wo Hau Road site in Kwai Chung, the court has granted an interim stay of submission of the draft Kwai Chung Outline Zoning Plan for Chief Executive in Council's approval, pending the determination of the JRs concerned. The estimated completion date of this project has been delayed for three years.

be involved in the above process[11];

(c) **Land resumption and clearance** – Some projects require land resumption and clearance and it takes a relatively longer time to complete the relevant procedures[12];

(d) **Provisioning and reprovisioning of facilities** – HA needs to provide community facilities for public housing development projects. If reprovisioning of existing facilities (e.g. parks, community halls and sports grounds) is required, the process will be even more complicated. The time required varies depending on individual circumstances[13];

(e) **Site formation and infrastructure provision** – Some sites require site formation and/or provision of additional infrastructures. The lead time for these works also varies depending on the complexity of the projects[14];

(f) **Sites involving Government-funded items** – For projects involving Government-funded works (such as public transport interchange, community hall and road improvement works), timely funding approval

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[11] Objections from DC and locals are not uncommon during the consultations, e.g. the recent rezoning proposal of five sites in Tseung Kwan O, three sites in Tong Yan San Tsuen, and five sites in Tuen Mun. The DCs concern mostly over traffic impact, the increasing pressure on existing community facilities, and impact on visual quality landscape and air ventilation brought by developments.

[12] The time required varies by individual projects. For example, it took around 24 months to complete the land resumption and clearance procedures for the Fo Tan site, and about 32 months for the Tuen Mun Area 54 Sites 1 and 1A and Sites 3 and 4 (East). It is also common to find graves on sites during detailed land survey (e.g. North East New Territories New Development Areas). For these cases, additional time would be required for grave clearance.

[13] For example, in the case of Hiu Ming Street site, we have to relocate and re-provide in-situ the existing tennis courts and a basketball court to vacate the site for public housing development, thus adding about two years' lead time to the development programme. For Wang Chiu Road Phase 2, the development programme of the site can only be certain subject to the relocation arrangement of the Christian Action. In the case of Ma On Shan Road site, we need to relocate facilities for temporary uses (e.g. a bicycle park, a community farm and an archery field) and carry out the diversion works for underground utilities running from the New Territories to Kowloon (including underground power cables, gas mains and water mains). These works take approximately five years to complete, hence lengthening the development programme.

[14] For example, Wang Chau Phase 1 requires site formation and road works, which takes about three years to complete. For Tuen Mun Area 54 Site 1 and 1A, it is estimated that about two years are required for the completion of the site formation and road works. For complicated sites such as Ka Wai Man Road Phase 2 in Central and Western District, a longer lead time is required for natural terrain hazard measures, as well as road and site formation works.

from LegCo is critical for completing relevant developments on time[15]; and

(g) **Building construction –** The time required for building construction varies widely depending on the complexity of projects. It normally takes about three and a half years for the construction of a 40-storey public housing block. However, sites involving more difficult or complex ground conditions or slopes, or those involving construction of refuge floors, basement or podium for maximising development potential, would require longer construction time[16]. Besides, during the construction stage of individual projects, HA also encounters unforeseeable factors that may affect the completion time of the projects[17].

The issue of redeveloping aged PRH estates

30. There have been views in the community that the Government may consider redeveloping aged PRH estates to increase the supply of PRH. There have indeed been considerable deliberations on this issue in the past[18]. As explained in LTHS, while redevelopment may increase PRH supply over the long term, it will immediately reduce the number of flats which can be allocated to those waiting for PRH because flats need to be reserved for rehousing tenants displaced by the redevelopment in the short term. Besides, the gain in flat supply from redevelopment will take a long time to realise, very often towards the latter if not the last phase of the redevelopment project. Hence, redevelopment of aged PRH estates can at best serve as a supplementary source to increase PRH supply. It is also not advisable to carry out massive redevelopment programmes which will result in freezing a large number of units that may otherwise be allocated to PRH applicants with pressing housing needs, given the current high demand for PRH. In compliance with this strategy, HA

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15 For example, the completion date of the Hang Tai Road project was delayed as LegCo's funding approval for the road improvement works could not be obtained as scheduled.

16 Examples include Tung Chung Area 39, Shek Mun Estate Phase 2 in Shatin and Northwest Kowloon Site 6.

17 For example, due to the shortage of labour in the construction industry and inclement weather, the completion dates of Tuen Mun Area 54 Site 2 Phases 1 and 2 and Anderson Road Site C1 are delayed from 2016-17 to 2017-18.

18 Including the three-month public consultation on LTHS in 2013, Report No. 62 of the Director of Audit and LegCo Public Accounts Committee Report No. 62 on “Planning, construction and redevelopment of PRH flats”, the Subcommittee on the Long Term Housing Strategy under the LegCo Panel on Housing, and HA’s Annual Special Open Meetings and Regular Open Meetings in recent years.

will continue to consider redevelopment on an estate-by-estate basis in accordance with its policies and criteria[19].

Meeting the challenges

31. As pointed out in paragraph 11 above, assuming that all sites identified can be delivered on time for housing construction, the Government has so far only identified land for the construction of about 237 000 public housing units for the ten-year period from 2018-19 to 2027-28. This falls short of our ten-year target of building 280 000 public housing units. Notwithstanding this, we will continue to adopt the following measures to overcome the challenges –

(i) to work closely with relevant government bureaux/departments to ensure timely availability of sites and supporting infrastructure;

(ii) to communicate proactively with DCs, local communities and other stakeholders through consultations and other forms of exchanges, to enlist their support for the public housing projects and address their concerns as far as practicable;

(iii) to maximise flat production of each public housing site through relaxation of development restrictions (e.g. plot ratio, building height) in an appropriate scale where planning condition permits, and to enlarge and/or amalgamate sites to create larger development site area. Since the maximum domestic plot ratio was allowed to increase by around 20% as appropriate (except for the north of Hong Kong Island, and Kowloon Peninsula) upon its

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[19] According to the "Refined Policy on Redevelopment of Aged PRH Estates" formulated by HA in 2011, HA will consider redevelopment of individual estates with reference to four basic principles, viz. 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 redevelopment.

In August 2017, HA endorsed the redevelopment of Blocks 9, 10, 11 and 13 of Pak Tin Estate in Sham Shui Po, which are the last two phases of the redevelopment of Pak Tin Estate announced in 2012. Besides, HA also endorsed the redevelopment of Mei Tung House and Mei Po House of Mei Tung Estate in Wong Tai Sin. In particular, initial estimation indicates that there will be substantial flat gain upon redevelopment of Mei Tung House and Mei Po House, from currently about 670 PRH units to nearly 1 900 PRH units upon redevelopment (subject to statutory planning approval). Rehousing resources for about 630 affected households in close proximity (i.e. Tung Tau Phase 8) are expected to be ready for intake in mid-2020, before the scheduled clearance date in November 2020.

announcement in the 2014 Policy Address, HA has obtained TPB's approval of the planning applications for relaxing the maximum domestic plot ratio for 9 public housing projects as at end-November 2017, contributing to an increase of about 3 300 public housing flats (i.e. about 20%)[20];

(iv) to adopt site-specific design to capitalise the optimal development potential of each site[21]. We will also continue to improve the construction process and built quality, as well as expedite flat production by adopting the pre-cast building technology and lean construction at sites; and

(v) to work with industry stakeholders to improve and implement labour training and procurement schemes, including different contractors co-operative training schemes and the Supplementary Labour Scheme, to mitigate the labour shortage problem.

32. The Government will continue to identify suitable sites for public housing development. HA and relevant departments will also continue to proactively examine how to better utilise identified and existing public housing sites to increase the supply for public housing. The Government needs to make concerted efforts in striking a balance amongst conflicting demands and interests, with a view to maximising public interest and tackling the shortage of affordable housing with resolution and vigour. The community as a whole also need to work together and accept the necessary trade-offs to avert the situation of inadequate housing land supply.

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[20] For example, through minor relaxation of plot ratio and building height restrictions, the flat production of Tuen Mun Area 54 Sites 3 and 4 (East) and Sites 1 and 1A has been increased by about 1 600 flats.

[21] For example, at the Tai Wo Hau Road and Texaco Road sites, innovative design was adopted to overcome the hilly terrain to enlarge the net site area by creating terraces on slopes.

PRH and GSH

Average waiting time (AWT) for PRH

33. As mentioned in the 2017 Policy Address, PRH is the first rung on the housing ladder, and is a long-established safety net for the grassroots and low-income families. Both the Government and HA remain committed to providing PRH to low-income families who cannot afford private rental accommodation, with HA's target of providing the first flat offer to general applicants (i.e. family and elderly one-person applicants) at around three years on average. As at end-September 2017, there were about 152 700 general applications for PRH, and about 127 400 non-elderly one-person applications under the Quota and Points System. The AWT[22] for general applicants was 4.6 years. Among them, the AWT for elderly one-person applicants was 2.6 years. The Government and HA will spare no efforts in reducing the waiting time for PRH. However, time is required to develop land and build housing. This, together with the various problems and challenges above, will inevitably continue to exert pressure on AWT.

34. In addition to new PRH supply, recovery of PRH units is another major source of supply. On average, there is a net recovery of over 7 000 PRH units per year from tenants. With more SSF projects coming on stream, we expect that more PRH units could be recovered for allocation. From time to time, HA also reviews and adopts appropriate measures to ensure fair and rational allocation of limited PRH resources with priority given to those with more pressing housing needs. Between October 2016 and March 2017, HA reviewed relevant policies and endorsed a number of measures, including introducing a frozen period for family applicants currently living in PRH[23] and

[22] Waiting time refers to the time taken between registration for PRH and the first flat offer, excluding any frozen period during the application period (such as when the applicant has not yet fulfilled the residence requirement, when the applicant has requested to put his or her application on hold pending arrival of family members for family reunion, or when the applicant is imprisoned). The AWT 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. The AWT target of around three years is not applicable to non-elderly one-person applicants under the Quota and Points System.

[23] Applicants currently living in PRH are considered to have relatively less pressing needs for another PRH unit when compared with applicants living in private rental accommodation (especially those living in sub-divided units). Starting from 1 April 2017, if all household members in a family application are currently living in PRH (whether from the same or from different PRH tenancies), the relevant application would be frozen for one year.

revising the "Well-off Tenants Policies"[24]. HA will continue to examine relevant measures to safeguard the rational use of precious PRH resources.

35. In addition, HA will continue with its efforts in combatting tenancy abuse. Apart from stepping up risk-based random checking on income and asset declarations, HA has been focusing attention on occupancy-related cases, which include sub-letting, non-occupation, unauthorised occupation and use of premises for illegal activities. Various publicity and outreaching activities are launched from time to time to promote the importance of safeguarding PRH resources, and encourage reporting on tenancy abuse.

GSH

36. HA launched the GSH Pilot Scheme in 2016 and selected a PRH project in San Po Kong (King Tai Court) for conversion to GSH. Under the pilot scheme, 857 units were put up for sale to Green Formers (mainly PRH tenants and PRH applicants who have passed the detailed eligibility vetting) at affordable prices. The project was over-subscribed by nearly 18 times and all units were sold out. This reflects strong demand among Green Formers for home ownership.

37. GSH aims to help better-off PRH households move up the housing ladder and address their home ownership aspirations at an earlier stage, and at the same time releasing more PRH units for re-allocation to those with more pressing needs. HA is reviewing the GSH Pilot Scheme with a view to concluding the review in early 2018. Meanwhile, a preliminary technical assessment by Government departments suggests that new PRH units in Fo Tan, Sha Tin can be converted into GSH units for sale in late 2018.

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[24] HA's Housing Subsidy Policy and the Policy on Safeguarding Rational Allocation of Public Housing Resources are commonly referred to as the "Well-off Tenants Policies". Households who have been living in PRH for 10 years are required to make a declaration biennially. Under the revised "Well-off Tenants Policies", those with household income exceeding five times of the PRH income limits (PRHILs), or with total net household assets exceeding 100 times of the PRHILs, or with private domestic property ownership in Hong Kong, are required to vacate their PRH units. For households who do not have private domestic property ownership in Hong Kong and whose household income and assets do not exceed the prescribed levels of income and assets, they may continue to live in their flats; if their household income is equivalent to 2 to 3 times the PRHILs, they will be required to pay 1.5 times net rent (plus rates); if their household income is equivalent to 3 to 5 times the PRHILs, they will be required to pay double net rent (plus rates). Households whose members are all aged 60 or above; or with all members receiving Comprehensive Social Security Assistance; or with all members receiving Social Welfare Department's Disability Allowance; or who are on shared tenancies are exempted from the "Well-off Tenants Policies".

38. Some quarters in the community have expressed concerns that increasing the GSH supply may lead to a reduction in PRH supply. Each GSH unit sold means either another PRH unit is returned to HA or is not allocated to the GSH buyer, and can be allocated to those waiting for PRH. This "one-for-one exchange" will not increase the supply of PRH, but also will not reduce the supply of PRH.

Subsidised home ownership

39. Subsidised home ownership is an essential element of the housing ladder and a core component of LTHS. HOS flats and other forms of SSFs serve as the first step for home ownership for low to middle-income families. The Government will continue to provide more SSFs, expand their forms as appropriate, and promote the circulation of existing stock.

Expediting supply of SSFs

40. Since the resumption of HOS in 2014, HA and HS have together constructed and put up over 8 500 SSFs for sale to low to middle-income families, with very positive response during each pre-sale exercise. In early 2017, HA put up 2 057 new HOS flats in Kwun Tong and Mui Wo, Lantau Island for pre-sale and recorded an over-subscription of 49 times. All these HOS flats were subsequently sold out. In end-October 2017, HS also offered 620 SSFs in Tseung Kwan O and Tuen Mun for pre-sale and recorded an over-subscription of about 150 times. These reflect persistently strong demand for SSFs. In 2018, HA plans to put up about 4 400 new HOS flats for pre-sale in 2018. The Government will continue to support HA and HS in providing more SSFs in future. To prepare for the increasing supply of SSFs, HA will continue to try and streamline the application and sales procedures with a view to enhancing the efficiency of the flat selection process and recovery of PRH flats so released for re-allocation.

Expanding forms of subsidised home ownership

41. Apart from GSH, the Government has been exploring other new forms of subsidised home ownership. As announced in the 2017 Policy Address, on the premise that public housing supply will not be affected, the Government plans to introduce the SH Pilot Scheme for Hong Kong Residents as a new form of subsidised home ownership, so as to re-ignite the hopes of families with higher income to own a home in the face of hiking property prices and to enrich the housing ladder.

42. The Government's 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. Specifically, developers will be required to design, build and offer for sale a specified number of SH units in addition to private housing units, and to sell these units to target buyers who meet the eligibility criteria set by the Government. These criteria include, among others, Hong Kong residents who have lived in Hong Kong for at least seven years, and have never owned any property here. Their income will fall between the prevailing income limits for HOS applicants and about 30% higher than such limits. The prices and sizes of SH units will be determined having regard to the affordability of eligible buyers. The alienation restrictions may be tighter than those for HOS. The Government will further consider how to deal with the issue of premium payment upon alienation.

43. As SH is a new concept, the Government will study views of the community before announcing the details in mid-2018. The Government plans to launch a pilot scheme to provide around 1 000 SH units at a residential site at Anderson Road, Kwun Tong to be sold under the Land Sale Programme by the end of 2018.

Promoting circulation

44. In the past, SSFs with premium unpaid in the Secondary Market were available for sale to Green Formers only. In 2013 and 2015, HA launched two rounds of an interim scheme to allow buyers with White Form status to purchase SSFs with premium unpaid with a quota of 5 000 and 2 500 respectively. Following the two rounds of the interim scheme, a total of about

4 000 White Form buyers achieved home ownership. It has enriched the housing ladder and promoted the circulation of SSFs in the Secondary Market.

45. HA reviewed the interim scheme in November 2017 and decided to regularise it as the White Form Secondary Market Scheme (WSM). WSM will be launched at around the same time as the Sale of HOS Flats 2018 (i.e. in the first quarter of 2018) with an annual quota of 2 500, providing more opportunities for White Formers to purchase SSFs with premium unpaid.

Healthy and stable residential property market

46. Maintaining the healthy and stable development of the private residential property market remains one of the important housing policy objectives of the Government. To help stabilise the property market and minimise adverse consequences arising from an overheated market, the Government will continue to adopt a two-pronged approach. On the one hand, we will ensure a stable land supply to meet market demand. On the other hand, we will implement demand-side management measures as and when necessary to suppress speculative, external and investment demands without unduly affecting Hong Kong permanent residents in meeting their home ownership needs. The Government will continue to remain vigilant and closely monitor property market movements and the evolving external conditions.

Transport and Housing Bureau
December 2017

Annex

Details of the total housing supply target projection for the ten-year period from 2018-19 to 2027-28

According to the projection methodology adopted by the Long Term Housing Strategy (LTHS) published in December 2014, housing demand is defined as the total number of new housing units required to provide adequate housing to each and every household over the long term. The methodology takes into account the following components in projecting the number of new housing units required –

(a) net increase in the number of households;

(b) households displaced by redevelopment;

(c) inadequately housed households (IHHs); and

(d) miscellaneous factors[1].

Projection for the period from 2018-19 to 2027-28

(a) Net increase in the number of households

2. The trend-based domestic household projections by the Census and Statistics Department (C&SD) form the basis of assessing the overall housing demand from the net increase in the number of households. Based on the latest projections published by C&SD in September 2017[2], the net increase in the number of households from mid-2018 to mid-2028 is about **234 400 units.** This will be taken into account in projecting the housing demand for the ten-year period from 2018-19 to 2027-28.

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[1] The miscellaneous factors taken into account include (a) private permanent living quarters occupied by households with mobile residents only; (b) non-local students who may take up accommodation in Hong Kong; and (c) non-local buyers who take up flats without selling or leasing them.

[2] The domestic household projections published in September 2017 are based on the new set of population projections from 2017 to 2066 and the results of the 2016 Population By-census (16BC) conducted by C&SD.

3. In line with previous projection exercises, an econometric modeling exercise has been conducted to quantify the relationship between household formation and economic performance (as proxied by real Gross Domestic Product (GDP) growth rate) and housing market situations (as proxied by vacancy rate of private flats) in order to reflect possible changes to household formation under different economic and property market situations. Results show that the net increase in households ranges from 218 000 to 250 800, representing a **+ / – 7%**[3] from C&SD's domestic household projection of 234 400.

(b) Households displaced by redevelopment

4. Households displaced by redevelopment of old buildings in the public and private sectors have to be rehoused, thus generating new housing demand on top of the net increase in the number of households. Taking into account the redevelopment of public housing units by the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS), as well as past trends in the private sector, it is estimated that there will be a new housing demand of about **60 400 units** from households displaced by redevelopment for the ten-year period from 2018-19 to 2027-28, with breakdown as follows –

[3] According to the econometric model, the number of households formed is higher when local macroeconomic performance is better or the housing market is less tight. Under the base case, in order to project the household formation in the next ten years, it is assumed that the real GDP growth in the next ten years will average around 2.8% per annum. In making the GDP growth assumption, reference has been made to the 2017-18 Budget and the Consultation Document of the Retirement Protection. For the private domestic vacancy rate in the next ten years, it is assumed to be the average rate over the past ten years from 2007 to 2016 (4.3%).

To work out a lower limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 1% point lower than the base case. Under this lower case scenario, the household formation in the next ten years would be around 7% lower than the base case.

To work out an upper limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 1% point higher than the base case. Under this upper case scenario, the household formation in the next ten years would be around 7% higher than the base case.

Redevelopment programmes		Number of units
(a)	Redevelopment of public housing units (based on the number of units demolished by HA and HS in the past ten years from 2007-08 to 2016-17)	20 400
(b)	Redevelopment of private units (based on past trend of private flats demolished from 2012 to 2016[4])	40 000
Total = (a) + (b)		**60 400**

5. In projections conducted in 2014 and 2015 (as well as the one conducted by the LTHS Steering Committee in 2013), the housing demand of households displaced by redevelopment of public housing units was assessed on the basis of announced redevelopment programmes. Since last year's projection for 2017-18 to 2026-27, we have refined the projection method by drawing reference from (a) the number of units needed to meet the housing demand arising from known public housing redevelopment programmes in the next ten years and (b) the number of public housing units demolished in the past ten years. The higher of (a) and (b) is taken to be the estimated demand from households displaced by redevelopment of public housing units, given that the new demand from public housing redevelopment has yet to be confirmed.[5]

6. Following the above refined methodology, we have compared the number of public housing units demolished in the past ten years (about 20 400 units from 2007-08 to 2016-17) with the estimated number of households

[4] From 2012 to 2016, the average number of private flats demolished was about 2 000 per year. As regards the number of households displaced by private redevelopment, there may be more than one household in a unit in older private buildings, and this should be taken into account in the projection. However, there is currently no reliable data to come up with this projection. The only benchmark from which we can make reference is the Urban Renewal Authority (URA)'s data. According to URA's data from its urban redevelopment projects commencing between 2012-13 and 2016-17, there were on average about two households living in each private unit demolished/to be demolished. Therefore, it is estimated that the number of households displaced by redevelopment in the projection period will be 40 000 (= 20 000 x 2).

[5] The assessment of whether to redevelop aged rental housing estates is an on-going work of HA and HS, conducted independently from the housing demand projection exercise. HA/HS may announce a new redevelopment project which is not yet known or confirmed at the time we conduct the housing demand projection.

affected by known public housing redevelopment programmes in the coming ten years (about 13 300 units[6] from 2018-19 to 2027-28). The higher figure of 20 400 units has been adopted to be the estimated demand from households displaced by public housing redevelopment from 2018-19 to 2027-28.

(c) Inadequately housed households (IHHs)

7. Households living in public housing which have been built to satisfy the housing needs of the community are regarded as living in adequate housing. As regards households living in private housing, the following circumstances are taken into account in determining whether a household is inadequately housed for the purpose of the projection –

(a) whether the housing unit is made up of temporary structures (e.g. huts, squatters and roof-top structures);

(b) whether the unit is located in a non-residential building (e.g. commercial and industrial building);

(c) whether the unit is shared with other households (e.g. those living in rooms, cubicles, bedspaces and cocklofts in private permanent buildings); and

(d) whether the unit is a subdivided unit (SDU).

8. In last year's projection (for the period from 2017-18 to 2026-27), households living in units made up of temporary structures (i.e. paragraph 7(a)) and units shared with other households (i.e. paragraph 7(c)) were estimated on the basis of the 2011 Population Census and updated with annual trend data observed from the General Household Survey conducted by C&SD; while households living in non-residential buildings (i.e. paragraph 7(b)) were estimated solely on the basis of the 2011 Population Census. The number of households living in SDUs (i.e. paragraph 7(d)) was estimated from the Thematic Household Survey on SDUs commissioned by C&SD in 2014 and

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6 Based on the known programmes under HA and HS, the housing demand for about 13 300 units in the ten-year period from 2018-19 to 2027-28 arises from the following projects: (a) 2 280 units in HA's Pak Tin Estate; (b) 630 units in HA's Mei Tung Estate; (c) 6 400 units in HA's Wah Fu Estate; (d) 2 230 units in HS' Ming Wah Dai Ha; (e) 950 units in HS' Yue Kwong Chuen; (f) 300 units in HS' Kwun Tong Garden Estate; and (g) about 500 units in HA's Shek Lei Interim Housing.

2015.

9. As regards this year's projection (for the period from 2018-19 to 2027-28), the estimates of the four categories of IHHs in paragraph 7 are compiled on the basis of 16BC conducted by C&SD. According to the 16BC findings, there were about 20 400 households under category (a), 5 600 households under category (b) and 5 800 households under category (c). Regarding category (d), it was estimated that there were about 91 800 households living in SDUs, out of which about 49 700 households were living in SDUs located in buildings aged above 50 years. Drawing reference from the data of the Rating and Valuation Department (RVD), the demolition rate of private residential units aged above 50 years is estimated to be 17.2% over a period of ten years[7]. Applying this demolition rate to SDUs located in buildings aged above 50 years, it is estimated that about 8 500 households living in these SDUs (= 49 700 x 17.2%) would be displaced by redevelopment in the next ten years. These households should be deducted from the estimated number of IHHs to avoid double counting with households displaced by private redevelopment. Accordingly, the estimated demand from households living in SDUs will be about 83 300 units (= 91 800 – 8 500).

10. Given the varied standards and living conditions of shared units and SDUs, not all households living therein are necessarily inadequately housed. Besides, a unit shared by two or more households or subdivided into two or more units may be able to provide adequate housing for one household if it is not shared or subdivided. In other words, there may not be a need to provide adequate housing to all the households living in a shared unit or an SDU. Nevertheless, we have continued to adopt a conservative approach to include all these households in this year's housing demand projection. Looking ahead, we will, in consultation with C&SD, consider the methodology to

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[7] According to RVD's data, there were about 1 090 600 private domestic units in Hong Kong as at the end of 2009, of which about 36 000 units were built before 1960 (i.e. having reached the age of 50 in 2010). In each of the years of 2010, 2011, 2012, 2013, 2014, 2015 and 2016, about 390, 430, 800, 580, 850, 810 and 500 units which were built before 1960 were demolished respectively. In other words, there were on average 620 units demolished per year in these seven years. Assuming this trend would continue for the future three years, the number of units which have reached the age of 50 in 2010 and would be demolished in the ten-year period from 2010 to 2019 would be about 6 200 units (= 620 x 10), accounting for about 17.2% of the total stock of 36 000 units. We have further applied this demolition rate in the projection for the period from 2018-19 to 2027-28.

estimate the number of households living in SDUs during the intercensal period.

11. Summing up the above components, the estimated number of IHHs is 115 100, with the following breakdown –

	Category of IHHs	Estimated number
(a)	Households living in units made up of temporary structures	20 400
(b)	Households living in non-residential buildings	5 600
(c)	Households sharing the same unit with other households	5 800
(d)	Households living in SDUs	83 300
	Total	**115 100**

(d) Miscellaneous Factors

12. Apart from the above three demand components, there may also be demands in the next ten years which are not covered in C&SD's domestic household projections. These include –

(a) private permanent living quarters occupied by households with mobile residents[8] only –

The estimated increase of such households is 700 each year based on past trends as observed from Population Censuses/By-censuses conducted by C&SD;

(b) non-local students who might take up accommodation in Hong Kong –

The estimated housing demand is 530 units each year, having regard

8 Mobile residents refer to Hong Kong permanent residents who have stayed in Hong Kong for at least one month but less than three months during the six months before or after the reference time-point, regardless of whether they are in Hong Kong or not at the reference time-point.

to the average increase of about 1 760 student visas each year from 2011-12 to 2016-17; about 60% of these students (including undergraduates and postgraduate students) are not living in residential halls/hostels provided by post-secondary institutions according to information from the Education Bureau and the University Grants Committee in the past five years; as well as the assumption that on average two non-local students will be sharing one housing unit; and

(c) buyers from outside Hong Kong who may purchase flats without channelling them back to the market[9] (i.e. not selling or leasing out their units) –

Drawing reference from statistics of the Inland Revenue Department (IRD) and RVD, it is estimated that the housing demand from such buyers ranges from 1 320 to 2 450 units per year, i.e. a mid-point of about 1 890 units per year[10].

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9 Although these units are bought by non-local buyers without being channelled back to the market, this does not imply that they are vacant units. These units may be occupied by owners as residence, second home, vacation home or for other purposes.

10 IRD’s stamp duty statistics show that purchases of residential properties by non-local buyers (including non-local individual and non-local company buyers) had been generally rising from 2007 to 2011. Their purchases as a share of total transactions rose from 3.5% in 2007 to 6.5% in 2011. After the Government introduced BSD in October 2012, their purchases averaged at 1.8% of total transactions in January 2013 to June 2017. With reference to the above, it is crudely assumed that the share of purchases by non-local buyers would be 5.0% (average share of non-local buyers among all transactions in 2009 to 2011) as the upper range and 1.8% as the lower range. Using the annual average number of stamped transactions in 2007 to 2016 (98 100 cases) as rough indication, the purchases by non-local buyers would be around 4 910 cases per year as the upper range and 1 770 cases per year as the lower range in the coming ten years, with a mid-point of 3 340 cases.

According to analysis of transactions suspected to involve non-local buyers, around 52% to 55% of the properties purchased in 2010 to 2012 were let out and had active records in RVD’s rental database. Yet the share plunged to an average of 27% in 2013 to 2016 (21% in 2013, 28% in 2014, 25% in 2015 and 32% in 2016), which might reflect the more significant effect of BSD on investors than owner-occupiers. Based on the above, it is assumed that in the upper case where the share of purchases by non-local buyers is taken as 5% (or 4 910 cases), half of the purchases (50%) by non-local buyers would be owner-occupied or left vacant, and the remaining 50% would eventually be channeled back into the leasing market for the local population; whereas in the lower case where the share of purchases by non-local buyers is taken as 1.8% (or 1 770 cases), it is assumed that 75% of the purchases would be owner-occupied or left vacant. Applying these ratios to the total purchases by non-local buyers, the projected demand is around 2 450 units per year at the upper range and 1 320 units at the lower range in the coming ten years, and the mid-point is about 1 890 units per year.

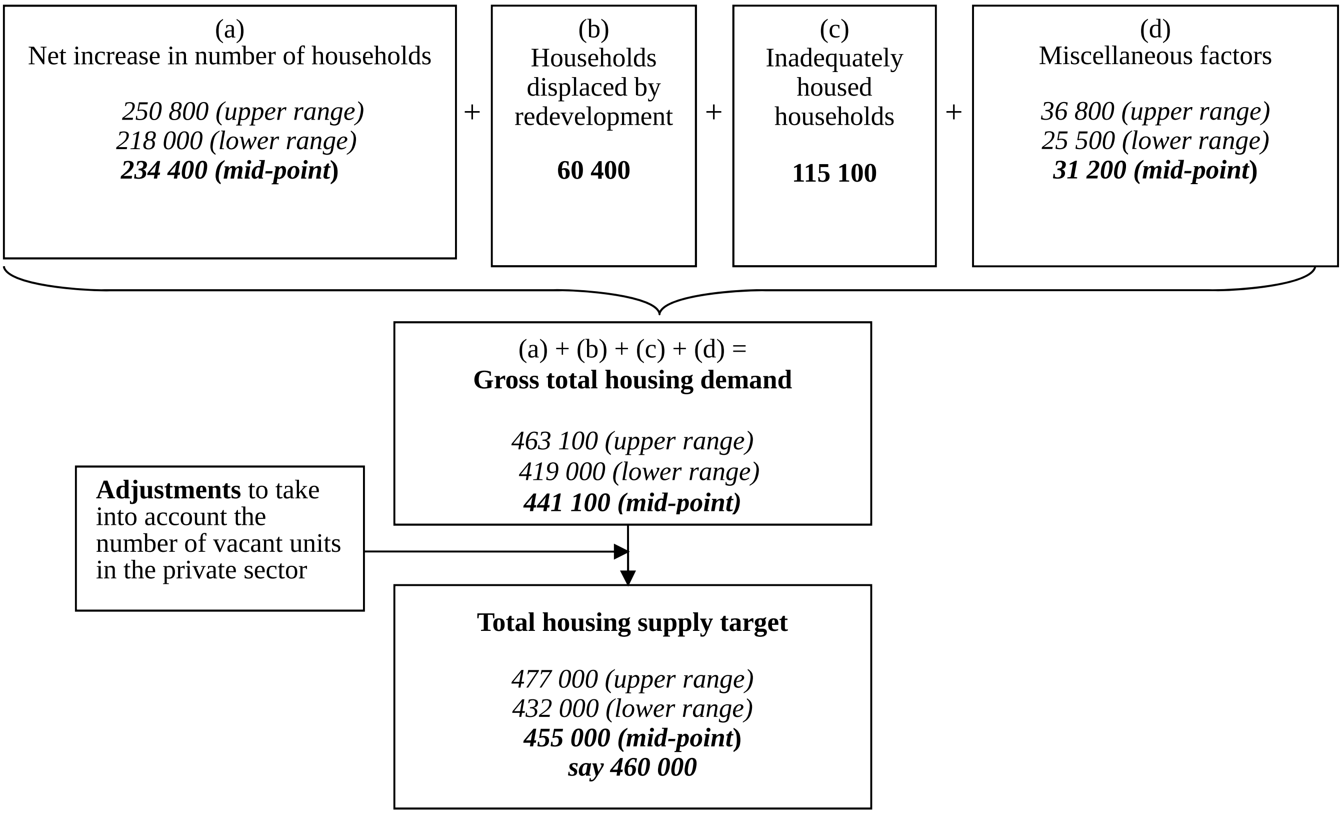
13. Assuming that the above past trends will continue in the next ten years, the estimated additional housing demand arising from miscellaneous factors is 3 120 units per year (= 700 + 530 + 1 890), or 31 200 units over the ten-year period from 2018-19 to 2027-28, with an upper and lower range of 36 800 and 25 500 units respectively.

Gross Total Housing Demand

14. Taking the above four demand components together, the estimated gross total housing demand is 441 100 units, being the mid-point between the upper and lower ranges of 463 100 and 419 000 units respectively for the ten-year projection period from 2018-19 to 2027-28.

Total Housing Supply Target

15. As there are always a certain number of flats left vacant in the private sector at any point in time, we have to adjust the gross total housing demand by taking into account the number of vacant private units at the beginning of the projection period (about 43 700 units) and the possible vacancy rate at the end of the projection period to derive the total housing supply target. On this, we have made reference from the average vacancy rate of 4.3% in the private sector from 2007 to 2016 as the basis for estimation. The projected total housing supply target in the next ten years so derived ranges from 432 000 to 477 000 units, with the mid-point being 455 000 units, rounding off to 460 000 units. Details are summarised below –


(a)
Net increase in number of households
250 800 (upper range)
218 000 (lower range)
234 400 (mid-point)
+
(b)
Households displaced by redevelopment
60 400
+
(c)
Inadequately housed households
115 100
+
(d)
Miscellaneous factors
36 800 (upper range)
25 500 (lower range)
31 200 (mid-point)
(a) + (b) + (c) + (d) =
Gross total housing demand
463 100 (upper range)
419 000 (lower range)
441 100 (mid-point)
Adjustments to take into account the number of vacant units in the private sector
Total housing supply target
477 000 (upper range)
432 000 (lower range)
455 000 (mid-point)
say 460 000