

THE HONG KONG INSTITUTE OF SURVEYORS
AND
THE ROYAL INSTITUTION OF CHARTERED SURVEYORS
(HONG KONG BRANCH)

REPORT

ON

THE HONG KONG GOVERNMENT'S
LONG TERM HOUSING STRATEGY
A POLICY STATEMENT - DATED APRIL 1987



HKIS/RICS Working Party's Report
on
Government's Long Term Housing Strategy
A Policy Statement - dated April, 1987

The proposed housing strategy, up to the year 2001, is generally supported, particularly Government's recognition that public housing sitting tenants should be encouraged to purchase flats in the private sector, thereby reducing the subsidy given to this section of the public and freeing-up of public housing rental units for others in greater need.

Detailed comments on the strategy are as follows:-

Paragraph 1

The HKIS/RICS agree that the basic aim of ensuring that adequate housing is available at an affordable price or rent must be maintained, and that:-

- (i) the redevelopment programme should be extended to Mark IV - VI and self-contained Former Government Low Cost Housing estates;
- (ii) the opportunities for home purchase should be increased;

Paragraphs 4 and 5

It is agreed that there is a growing aspiration to own rather than to rent. The six objectives referred to in para. 5 are also agreed.

Paragraph 6

The figure for 'Net household formation', up to the year 2001, at 550,000 additional flats appears high, particularly when compared with the figure of only 10,000 flats a year required by new households for PRH after 1996, referred to in para. 8 (b).

It is noted that the additional flats required of 960,000, is based on the Census and Statistics Department's projection of future population trends and the '1986 Review of Housing Demand and Supply'. Government's strategy is based on this review. Accuracy is therefore important and needs to be closely monitored, and perhaps the HKIS/RICS should be given access to the review, and consulted on future reviews.

Paragraph 8 (c)

It is said that there is a likelihood of an increasing demand for HOS/PSPS, and that by 2001, the home purchase aspirations of 100,000 households will remain unsatisfied. It is difficult to know whether 'demand' in this context equates to 'eligibility' for this type of housing. In any case, it is obvious that there will always be a demand for HOS/PSPS housing if it continues to be sold at a discount to market value.

Paragraph 8 (d)

Government has given no reasons in support of the statement that after 1990 the demand for private sector resources of :-

- (i) construction capacity;
- (ii) land held by private developers; and
- (iii) private sector financing

will not be fully utilised. This statement is difficult to understand, but may be based on the assumption that the demand for PRH may decrease in the 1990's and as a result there would be surplus construction capacity and private sector financing. Government may however be envisaging a possible decrease in actual demand for the purchase of private sector flats, but again this is difficult to understand, as demand will depend on price at that time, which developers can always adjust to suit the conditions.

Paragraphs 10 - 13

It is generally agreed that :-

- (i) Marks I - VI can only accommodate one-or two-person households;
- (ii) the densities are too high, and put a strain on amenities such as open space;
- (iii) that maintenance costs will increase, particularly given the age and nature of construction of the buildings.
- (iv) that redevelopment will free-up prime urban sites, which would permit a better environment, and a better balance in the housing mix.

Paragraphs 16 and 17

It is agreed that sitting tenants should be encouraged to move out of highly subsidised public rental units, by a combination of raising rents of the better-off tenants, and the offer of a home purchase loan.

Paragraphs 18 and 19

It is agreed that clearerees, disaster victims and waiting List applicants be offered alternatives, other than to move into public rental housing.

It is agreed that the upgrading of some rental blocks e.g. Tridents, for sale under HOS, would provide flexibility, and go some way to meeting the aspirations of this group.

Paragraph 20

It is agreed that some of the larger redevelopment sites should be redeveloped with HOS and PSPS housing, and that households affected by the redevelopment should be given priority to purchase these flats.

Paragraph 21

The introduction of a Home Purchase Loan Scheme (HPLS) is supported. It is generally agreed that the loan should be interest free, and that it should be considered as a loan towards the downpayments on a private sector flat. A loan of 10% of the flat price or a maximum of \$50,000 may not however be regarded by sitting tenants as sufficient (given current prices) to meet the full amount of a downpayment, particularly as solicitor's costs and a stamp duty (at the rate of 2.75% on purchases over \$500,000) are also necessary at the time of a purchase. The purchase of a 600 sq.ft. gross unit in a good location, at \$1,000 per sq.ft., would incur solicitor fees, stamp duty and other disbursements amounting to some \$32,000. With a 10% downpayment, a purchaser would have to find some \$92,000. Government may thus consider increasing the maximum amount of the loan, perhaps the first \$50,000 at no interest, and up to a further \$50,000 at, say, 1% below prime. Government may also consider reducing the impact of the present high level of stamp duty on small flats, as a further means of encouraging home ownership.

Paragraph 21/cont.

It is agreed that there should be disincentives to discourage the speculative resale of flats before the loan is paid off. The formula described in the paragraph, of outstanding loan plus an addition if the sale price is higher than the purchase price, is generally supported. However it could very well be that if the resale takes place in a period of rising prices, the additional amount repayable to Government could be higher than the accrued interest had the purchaser borrowed on commercial terms in the normal way. It is noted that there will be no resale restriction period on flats bought with a loan; this is correct, as Government will only subsidise the amount of the downpayment.

Paragraph 22

The HKIS/RICS considers that the HPLS should be restricted to clearances and sitting PRH tenants.

Paragraph 24

The offering of 2,000 loans at a maximum of \$50,000 per loan would provide some \$100 million for purchasing small flats in the private sector. On the face of it, this could put pressure on the price of small units in 1988. It is noted (Property Review 1987, Table 6) that of some 31,000 Class A and B flats forecast for 1988, some 5,520 flats will be provided in North Point and Shau Kei Wan, 9,050 flats will be in Kwai Chung and Tsuen Wan, and some 2,640 flats will be provided in Tuen Mun. Prices in these areas will probably remain stable, but may increase somewhat in other areas depending on locational preferences of purchasers.

The granting of loans from April 1988 should give the private sector a reasonable lead-time to consider increasing production from 1989 onwards. If private sector developers do not respond, they will only have themselves to blame, if Government in monitoring the loan scheme, reverts to HOS/PSPS production. It is noted that the HPLS should encourage developers to open up their 'land banks'.

Paragraph 25

The concept of HOS/PSPS acting as a buffer against a shortfall in private sector production is generally supported. If Government's working assumptions in the strategy are correct, then Government's production level for PRH/HOS/PSPS flats at an average 40,000 a year through to 2001, is acceptable.

However Government should consider a shift from PRH and HOS, both of which have a high degree of Government involvement, to more private sector input through PSPS developments, particularly if Government's assumption that private sector resources will not be fully utilised after 1990 (para. 8(d)) is correct.

As part of Government's long term strategy, the HKIS/RICS would also like to see some modification of the present HOS and PSPS, as unlike the late 1970s and early 1980s, flat prices are now relatively affordable. In particular the HKIS/RICS would ask Government to consider a reduction in the traditional 25 - 30% discount from market value given on HOS flats. This could probably be coupled with a relaxation in the 10 years no-resale period and the payment of a premium once a sale is allowed. In other words, Governments should consider reverting to the position prior to 1981 when the resale restriction was 5 years, and a land value element was incorporated into the flat selling price.

The HKIS/RICS is also of the view that there should be no further increase in real terms in the HOS/PSPS income limit for white form applicants.

Paragraph 26

It is noted that Government considers the private sector would have to average 30,000 flats per year to meet the needs of the housing strategy. Bearing in mind, the level of production in 1987 and 1988, and the strong likelihood that the private sector could increase this level thereafter, a level of 30,000 flats per year should be exceeded, provided that suitable sites are made available to the private sector, although this may necessitate an increase in the 50 hectare land limit if corresponding decreases of land available for commercial and industrial uses are to be avoided.

Paragraph 29

The RICS/HKIS see no reason to disagree with the assumptions at (a) to (d).

Paragraph 30

Again, the RICS/HKIS would agree:-

- (i) that the amended strategy would not adversely affect the eligibility of those entitled to public housing under current policies;
- (ii) that there will be a great choice between rental and home purchase flats;
- (iii) that more rental units will be vacated by sitting tenants and the waiting time for rehousing will not be increased;
- (iv) the chances in buying HOS/PSPS flats will be indirectly enhanced;

Other observations

It is noted that :-

- (i) there will be a contingent liability to Government on the introduction of an HPLS, but the likelihood of a default is considered low. Even in the event of a total loss from any one applicant, the cost to Government would be less than the cost of subsidising a public housing unit;
- (ii) the HPLS could be placed at risk in the event of an economic recession or a substantial increase in interest rates;
- (iii) the HPLS should be limited to new flats which provide better security, are easier to value, establish title to, and control;
- (iv) a monitoring body will need be set up to closely watch movements in the private housing market and to recommend adjustments in the production rate of HOS/PSPS units as necessary. It is hoped that the HKIS/RICS, as the leading property profession, will be invited to participate as a member of the group.

In conclusion the HKIS/RICS are fully supportive of any policy which, by maximisation of both Government and private sector resources, enables the aspirations of all potential householders to be met in the shortest possible timespan. However within the context of that policy we would like to see a gradual reduction and eventual removal of all elements of subsidy. Any involvement of Government in the production of units for sale, should be restricted to those situations where intervention is necessary to stabilise the property market, and ensure a sufficient supply of small flats at affordable prices.