

Back to the Era of “Having a Shelter over Our Heads” – Policy Recommendations for HOS Resumption

I. Prologue

1. The SAR Government (hereafter the Government) has launched a public consultation to revisit the policy on subsidizing home ownership (hereafter “the consultation”), which is considered a retrogression in respective policy area. Despite Government’s reiteration of having no predisposition over this issue, members of the public are required to provide compelling reasons and tell the Government why it should not continue the suspension of the Home Ownership Scheme (hereafter “HOS”) and variety of home finance schemes. In the light of this, Government’s current position over subsidizing home ownership could be summarized in two points. First and foremost, there is no urge for the provision of HOS flats except rentals in view of the abundant “starter flat” supply in the market. Secondly, revitalization of the HOS second hand market is considered an extra source of “starter flats”, which might help alleviate the tension arising from a stringent private property supply.

2. The Professional Commons disagrees with Government’s reluctance on resuming the HOS scheme. This research paper attempts to respond to these two major focuses raised in the consultation by suggesting that, first of all, the supply of small- and medium-sized private “starter flats” will be proved inadequate, different from what the Government has always claimed. It will then highlight the internal conflicts concerning the Government’s proposed measure of revitalizing HOS second hand market. And finally, the paper will, come up with policy recommendations on subsidized housing, in particular the conception and arguments for HOS resumption.

II. Inadequacy of “starter flats”: issue considered as a “non-issue”

A. Demand for Private Housing

3. The Government is so opinionated that the citizens should get the dream of owning a residential flat accomplished in a gradual manner. As a realistic start, they are advised to consider small- and medium-sized second hand flats. By a line drawn by the Government, flats cost below HK\$2 million are considered suitable for the “starters” and **the Government claimed that there are still plenty of “starter flats” in the market, as reflected by the fact that the amount of related first and second hand transactions constituted over 50% of the totals on average during 2003-2009.** Therefore, as far as the Government is concerned, there exists adequate flat supply to cater to people’s need for home ownership.

4. Unfortunately, **they are all far from the truth.** As far as the demand is concerned, **the average take-up volume of small- and medium-sized flats amounted to 13,240 annually from 2005 to 2009** (please refer to Table 1), which would be regarded as the new annual demand for housing. **But an annual average of 10,690 new flats has been completed in the past 5 years, suggesting a deficit of 2,550 flats per annum.** More importantly, take-up volume of small- and medium-sized flats outnumbered their corresponding completion by around 9,000 and 5,000 units in 2007 and 2009 respectively, indicative of a recent strong growth of market demand.

Table 1 : Total Number of Small and Medium-Sized Flats (Completion and Take-up: regarding their definition please refer to Technical Notes) (unit)

| No. of Flats Year | 2005 | 2006 | 2007 | 2008 | 2009 | Average |
|----------------------|--------|--------|--------|-------|--------|---------|
| Completion (C) | 16,250 | 15,130 | 9,730 | 7,600 | 4,740 | 10,690 |
| Take-up (T) | 16,150 | 14,040 | 19,300 | 6,290 | 10,420 | 13,240 |
| Difference (C-T) | 100 | 1,090 | -9,570 | 1,310 | -5,680 | -2,550 |

(Source : Rating and Valuation Department: “Hong Kong Property Review (2009)”, 2010 edition. p. 22)

B. “Starter flats”: declining in proportion and absolute amount

5. The property price has experienced a rapid upsurge in recent years. As far as the first hand transactions are concerned, average close price per deal had surged twofold

from HK\$2.76 million in 2003 to HK\$7.71 million in the first seven months of 2010. The second hand transactions have somewhat caught up, from HK\$1.79 million in 2003 to HK\$3.43 million in the first seven months of this year. (please refer to Table 2)

Table 2 : Average Price involved in Agreements for Sales and Purchase of Residential Building Units: Primary and Secondary Sales (in HK\$ million)

| Year Transaction | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 (up to July) |
|---------------------|------|------|------|------|------|------|------|----------------------|
| First Hand | 276 | 380 | 583 | 413 | 609 | 700 | 738 | 771 |
| Second Hand | 179 | 239 | 251 | 255 | 309 | 314 | 310 | 343 |

(Source: “Statistics of Agreements for Sale and Purchase of Residential Building Units: Primary and Secondary Sales”, the Land Registry Website: <http://www.landreg.gov.hk/tc/monthly/agt-primary.htm>)

6. Under the influence of rocketing house price, **the number of “starter flats” below HK\$2 million has been plummeting in stock. Amidst private residential units of all kinds is the declining number of “starter-flat” transactions in proportion, which was from 71% of all transactions in 2003 down to 47% in 2009. The situation was even worse during the first seven months of this year, which was further reduced to barely over 40%. As far as affordability of the grass-root buyers is concerned, flats below HK\$1 million are supposed to fall within their budget.** But the fact is, **transactions involved in this type of flats**, during 2003 – 2009, plunged from 32% to the astounding 9% of the totals, accompanied by a 50% curtail from 22,838 to 10,603 units in absolute number (please refer to Table 3). The figure **has further dropped to less than 5%** of the total number of transactions **during the first seven months of this year**. Generally speaking, the more severe the house price is rising, the less possible the affordable “starter flats” are being available. Even worse, the same amount of money does not guarantee any flat purchase comparable with those available a couple of years ago. Home buyers have been so annoyed that the residential flats they could afford are much smaller, much older and more remote. This adversely affects the quality of life amongst home buyers nowadays.

Table 3 : Statistics of Agreements for Sale and Purchase of Residential Building Units:
Consideration Range

| Year Tran- saction | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 (till July) |
|--------------------------|--------|---------|---------|--------|---------|--------|---------|------------------------|
| > 1M (cases) | 22,838 | 25,782 | 23,768 | 19,606 | 20,461 | 11,018 | 10,603 | 3,509 |
| % | 31.9 | 25.6 | 23.0 | 23.8 | 16.6 | 11.5 | 9.2 | 4.5 |
| 1M to > 2M (cases) | 27,800 | 31,424 | 32,300 | 26,832 | 45,457 | 36,784 | 43,085 | 28,049 |
| % | 38.8 | 31.2 | 31.2 | 32.5 | 36.8 | 38.3 | 37.4 | 35.7 |
| >2M (cases) | 50,638 | 57,206 | 56,068 | 46,438 | 65,918 | 47,802 | 53,688 | 31,588 |
| % | 70.7 | 56.8 | 54.2 | 56.3 | 53.3 | 49.8 | 46.6 | 40.2 |
| Total (cases) | 71,576 | 100,630 | 103,362 | 82,472 | 123,575 | 95,931 | 115,092 | 78,586 |

(Source: “Statistics of Agreements for Sale and Purchase of Residential Building Units: Consideration Range, the Land Registry Website: <http://www.landreg.gov.hk/tc/monthly/agt-consideration.htm>)

7. Land is so valuable in Hong Kong. Therefore area size is another critical factor determining whether a flat meets the criteria as a “starter flat”. According to the Government’s standard, small- and medium-sized flats comprise three categories: those below 40 square meters, between 40 and 69.9 square meters, as well between 70 and 99.9 square meters. Amongst them, those with an area between 70 and 99.9 square meters are too big to be a “starter flat”, whereas the rest depends on the property price level at any particular moment. In similar vein, geographical location is considered another determining factor. **Statistics shows Hong Kong Island units are so expensive that nearly all newly-completed ones are far beyond the starters’ affordability.**

8. Comparatively speaking, property prices in Kowloon and New Territories are less terrifying, but the overall soaring price level and persistent reduction of newly completed units make supply of “starter flats” less and less adequate in these areas. **Draining stock of newly completed “starter flats”, from 2,180 in 2005 to only 243 in 2009, in both Kowloon and New Territories was recorded, equivalent to a plunge from 12% to 3% of all flats completed in respective years.** As regards flats with an area between 40 and 69.9 square meters, average price level has been over HK\$2 million, indicative of a decreasing number of units that fit the Government’s standard as a “starter flat”. (please refer to Table 4)

Table 4 : Private Domestic – Completion (Kowloon and New Territories)

| Area of Units \ Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 (till Jun) |
|----------------------------------|--------|--------|--------|-------|-------|-----------------|
| < 40 m ² (unit) | 2 180 | 1 426 | 656 | 628 | 243 | 184 |
| % | 12.6 | 8.6 | 6.3 | 7.2 | 3.4 | 2.6 |
| 40 to < 70 m ² (unit) | 7 823 | 9 742 | 6 932 | 4 498 | 2 413 | 3 743 |
| % | 45.2 | 58.8 | 66.2 | 51.3 | 33.7 | 53.2 |
| Total (unit) | 17 321 | 16 579 | 10 471 | 8 776 | 7 157 | 7030 |

Source: “Private Domestic – Demolition and Completion by Class”, Rating and Valuation Department: “Hong Kong Property Review”, 2009 edition. Table 4

C. Future supply of “starter flats”: no room for being optimistic

9. In view of the current property market condition, only flats with an area 40 square meters or below meet the margin as the “starter flat”. Accordingly, it is estimated that 1,214 and 830 units will be available in 2010 and 2011 respectively, but obviously these numbers do not take year’s demolition and the year end vacancy figures into account.

10. **Flats are not supposed to be ready for sales immediately after their completion.** There exist a number of lagging factors such as developers' intention not to put all the flats on sale at one time. In the light of this, newly completed flats should not automatically be counted as the actual supply in respective year. This is vividly indicated by the high **vacancy rate** in the last couple of years. Ratios concerned **have been as high as 88% to 99% in the period of 2005 to 09**, representing those being vacated within at the year-end after their completion. **This illustrates a fact that over 90% of new flats on average are not supposed to be on sale in the same year after being completed.** If the possible sales of stocks did not take into consideration, the new supply available for sales this year would be about 90% of flats completed last year, i.e. around 6,300 units, together with one-tenth of the amount expected to be completed this year, which is about 1,400, totaling around 8,000 units.

11. Besides, **the supply of newly completed flats has somewhat been eroded by demolition at extensive scale.** In recent years, there has been growing number of small- and medium-sized flats being involved in demolition. **In 2005, there were a total of 238 units that underwent demolition. The figure kept climbing up until a staggering 397 cases were recorded in 2009. This is the first time the amount involved in demolition outpaced the completion. As regards flats between 40 and 69.9 square meters, total number of demolition had been trebled from 211 units in 2005 to 768 units in 2009, which is equivalent to 2% to 25% of all newly completed buildings of the same class** (please refer to Table 5).

Table 5: Small and Medium-sized Flats – Demolition and Completion: A Comparison

| Area of Units \ Year | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|--------|--------|-------|-------|-------|
| Demolition: < 40m ² (units) | 238 | 250 | 128 | 503 | 397 |
| Completion: < 40m ² (units) | 2,408 | 1,601 | 1,029 | 871 | 373 |
| Ratio between Demolition and Completion (%) | 9.9 | 15.6 | 12.4 | 57.7 | 106.4 |
| Demolition: 40 to < 70 m ² (units) | 211 | 226 | 468 | 593 | 768 |
| Completion: 40 to < 70 m ² (units) | 10,754 | 10,664 | 7,188 | 4,897 | 2,998 |
| Ratio between Demolition and Completion (%) | 2.0 | 2.1 | 6.5 | 12.1 | 25.6 |

Source: "Private Domestic – Demolition and Completion by Class", Rating and Valuation Department: "Hong Kong Property Review", 2009 edition. Table 4

D. “Luxurization” of private property: developers’ lack of interest on “starter flats”

12. **Despite the fact that the Government had put in place the ratio of small- and medium-sized flats through land grant provisions, developers can still build luxury flats as there is no control over price levels.** These flats are definitely out of the reach of ordinary home buyers. **Even developers engaging in urban renewal projects are preferred to build luxury flats.** In this sense, it would be in vain for the Government to expect private property developers to contribute to the supply of “starter flats”.

13. Developers’ lack of interest on the production of middle- and lower-priced residential flats is nothing new at all. A reason why over half of the whole population is public housing tenants is that the relevant supply in the private market is far from enough to cater to the basic needs of these people, therefore triggering government’s intervention.

14. Not only does **decline in small- and medium-sized flat supply** affect the house price level, it **also boosts their rental value, whose rate of growth has outpaced flats of other types.** **In the second quarter of 2010, rental level for small residential flats (40 square meters or below) has been 40% more than that in the same period of 2005.** Also, this level of growth is amongst all the highest, when **compared with residential units of other types** (please refer to Table 6). Even though the grassroots have had to give up their home ownership dream, they still have to bear the burden of these skyrocketing rentals.

Table 6: Private Domestic – Rental Indices by Class Index

| Area of Period Units | <40m ² | 40-≤70 m ² | 70-≤100m ² | 100-≤160 m ² | >160m ² | Average |
|----------------------------|-------------------|-----------------------|-----------------------|-------------------------|--------------------|---------|
| 2005 (Second Quarter) | 82.5 | 83.8 | 90.5 | 92.1 | 95.6 | 88.9 |
| 2010** (Second Quarter) | 117.5 | 115.4 | 115.9 | 122.7 | 130.1 | 120.3 |
| Rate of Increase | 42.4% | 37.7% | 28.0% | 33.3% | 36.1 % | 35.5% |

* Provisional Figures

Source: Rating and Valuation Department: “Private Domestic – 1979-June 2009 Rental Indices by Class”, <http://www.rvd.gov.hk/en/doc/statistics/his_data_3.pdf>, “Hong Kong Property Review – Monthly Supplement”, July, 2010, <http://www.rvd.gov.hk/en/doc/statistics/rvd1_2.pdf>

15. MTRC’s and URA’s projects could serve as an additional sources of small- and medium-sized flats, but it is unrealistic to expect property developers to give a helping hand voluntarily. The property development project upon Nam Cheong MTR Station was eventually withheld due to the unacceptable low bidding offered by the developers, resulting in postponing the supply of the supposed 3,300 residential flats.

16. To conclude, **the crux of the problem is the imbalance between supply and demand in local property market, resulting in inadequate number of small- and medium-sized flats for ordinary citizens who are desperate for a decent accommodation, as well as quality housing for those who want to improve their quality of living. If this longstanding issue has to be addressed, greater effort has to be put to boost the supply of residential flats substantially.**

III. Dubious effect from measure of revitalizing HOS second hand market

17. **In response to the widespread criticisms towards the difficulties for home ownership, the Government proposed three measures to revitalize the HOS second hand market in order to increase the supply of middle- and lower-priced residential flats.** Amongst all is the controversial “Premium Loan Guarantee Scheme” by the Hong Kong Mortgaging Corporation Limited. It is expected that the HOS flat owners’ response would be in great diversity, and therefore goodwill attained by the Government might not be actualized. To sum up, there exist three different approaches whereby HOS flat owners could take as a response.

- First, for those who bought the flat for their own use, they met the asset requirements and therefore not wealthy at all. Hence, most of them cannot afford a private residential flat. The provision of premium guarantee is not attractive or they would take a risk of being homeless and put their HOS flats on sale;
- Second, for those who intend to put their flats on sale, it is more likely for them to use the amount paid by the buyers to settle the relevant land premium, so as to avoid the extra risk arising from upfront premium payment;
- Third, certain number of HOS flat owners might be interested in transforming their property into a private one due to following reasons:
 - more flexible for the property to be put on sale and lease; or
 - repayment of premium loan could be treated as a kind of long-term saving.

18. **Another area of concern is its possible violation of the policy goal of revitalizing the HOS second hand market. This is because the sale of HOS flats after the settlement of premium suggests that the flats concerned would be entirely private in nature, after which the target buyers are not only confined to public housing tenants and those on the “General Application List”. More importantly, once these units have been out of the HOS market and become “a commodity” in the private market, they will never be recovered and no longer available for sale in the HOS second hand market again. That is, the stock available for sale in the second hand market will be draining and finally out of stock.** As mentioned in the previous paragraph, we are out of our depth to say exactly how many HOS flat owners would be intent on settling the premium payment. But as far as the policy impact is concerned, it is more or less equivalent to take away supply from the HOS second hand market, which is ironically in stark contrast with government’s intention of revitalizing HOS second hand market. **These two markets are by nature**

mutually exclusive to each other, as they are there to struggle with the same pool of scarce property supply.

19. Even worse, **upfront premium payment would make people involved in HOS flat purchases become more speculative.** Owing to the fact that the amount of premium to be paid by HOS flat owners is appraised by the market value of their property, some landlords would try to minimize the amount of premium by waiting for a sluggish market. **For those who have positive expectation on the market value of their property might also take a wait-and-see approach, even though they temporarily put on hold the full settlement of premium, they also do not want to put their property on sale. As a consequence, the whole HOS second market will be dragged into a situation where the more rampant market price the landlords are expecting, the more severe shortage of supply in the HOS second hand market is expected. As a result, this will probably make public housing tenants less able to buy their own HOS flats.**

20. On one hand, most public housing tenants do not have the financial ability to straddle over the hurdle leading to the private property market. On the other hand, the “privatization of HOS flats” as mentioned above would result in the dwindling effect on the supply in the HOS second hand market, while more vacated HOS flats are being sold in the private market. **As less HOS flats will be available to the public housing tenants and those on the “General Application List”, Government’s strategy to facilitate the turnover of public housing will be under direct attack. In the long run, the mechanism of “Two Markets Three Levels” will come to a complete dissolution, and public housing tenants will lose a major alternative of improving their life quality through buying HOS flats.**

21. More importantly, if said privatization is so likely to happen, all newly-completed HOS flats will at the end of the day become “private”. So to speak, increase in HOS flat supply is tantamount to the increased supply of private housing. This is why private property developers are not so keen on any proposal for HOS resumption.

22. To this end, **The Professional Commons opposes any Government’s hasty decision to put forward “Premium Loan Guarantee Scheme”, so as not to accelerate the pace of “privatization of HOS flats”. It should be noted that the proposed loan scheme will definitely endanger the stable development of the HOS second hand market. Despite this, measures like expediting the streamlining of**

unnecessary documentations and procedures concerning HOS flat application are worth putting forward, as they are effective in bringing revitalization of market into a fuller play.

IV. In Favor of HOS Resumption

A. Adverse consequences arising from HOS suspension

i. Damaging turnover of public housing

23. **One argument justifying government's refusal to engage in HOS production is that it barely affects the turnover of public housing, which is in fact far from the truth.** On the contrary, its impact is more severe than what the Government has considered. The Government claimed that even if no HOS flats were produced, there would still be a stable supply of public rental flats surrendered voluntarily by tenants. During the period 2004/05 - 2008/09, about 8,500 units were recovered annually. But what the Government keeps emphasizing is just one side of a coin, **without referring to the fact that the amount has been curtailed by half since the suspension of various home finance schemes. There were on average 15,390 recovered units per year during 1997 - 2001, but it dropped to only 7,121 annually from 2002 till October 2007.**

24. The Government started selling surplus HOS flats in 2007, which showed remarkable progress in regard to turnover of public housing. During 2007-2008, both the Hong Kong Housing Authority ("HKHA") and the Hong Kong Housing Society ("HKHS") sold their surplus HOS and Sandwich Class Housing Scheme ("SCHC") flats in 4 different phases, in which 5,997 units were sold to the Green Form applicants. Total number of rental flats recovered from those who bought their own flats through first-hand HOS/PSPS market has reached 1,394 units and 2,821 units in these two years respectively. Taking purchases through second hand market into account, the amount reached 3,547 and 4,196 respectively. These figures have shown positive significance towards recent discussion on HOS resumption.

ii. Weakening HA's financial stability in the provision of public housing

25. **The revenues generated from the sales of HOS flats, including the premium, are allocated to the Housing Authority ("HA") for accomplishment of its policy mission on public housing. Not only does this alleviate government's financial burden, it can ensure the sustainability of rental housing policy.** In the light of this, suspension of the HOS in 2002 resulted in the removal of one major source of HA's revenue. Financial crisis ensued, and the HA had to sell out some of its spin-offs

including shopping malls and car parks. All these reveal how important the sales of HOS flats can contribute to the sustainable development of the rental housing policy. **In addition to the revenues generated from the sales of surplus HOS flats and land premium, the proposed “Premium Loan Guarantee Scheme” is expected to attract more land premium applications and bring about extra revenue. But in the long run, the Government will face the heavy burdens from public housing production and management as the above-mentioned financial sources would eventually be exhausted.**

iii. Further shortage of middle- and lower-priced flats

26. Annual production of HOS flats in moderate amount is conducive to stabilizing the supply of middle- and lower-priced flats. In fact, there exists quite a lot in common between the backgrounds of public rental and HOS housing. As revealed by history, property developers had failed to provide enough small and medium-sized residential flats for rental or sale, resulting in government’s intervention, as one of the main property developers, to produce rental housing and HOS flats. Despite this, it should be highlighted that the impact on local property market was minimal. The market was still thriving and there was no major bankruptcy incident amongst developers. In recent years, there is a growing trend that developers are more interested in producing large- and medium-sized flats, and even luxury flats, intensifying the shortage in supply of middle- and lower-priced flats. In view of such circumstance, the Government seemingly budes to act proactively. Instead, the suspension of HOS since 2002 gave the developers a strong message that the Government has completely retreated itself from the property market. This “complete retreat” strategy is inappropriate especially when developers are feeling ecstatic over production of large and luxury residential flats on one hand, whereas disengaging themselves from the development of small and medium-sized flats. **From a strategic point of view, the Government should keep as many policy tools in hand as possible so that, by virtue of these tools, Government’s capability and resolution would be dispensed through necessary intervention.**

iv. Home ownership rate: on a downhill

27. Problems arising from suspension of all home ownership schemes including HOS had been surfaced. In 1998, the year which the White Paper on Long Term Housing Strategy was released, overall home ownership rate was 46.6%. The rate culminated in

the all-time high at 54.3% in 2004 but dropped gradually to 52.7% in 2008. If the current dilatory attitude of the Government over its land and housing policy, as deciding whether to resume the HOS, remains intact, it is expected that the overall housing supply will continue to stagnate, the overall home ownership rate will be further declining, therefore widening the gap between Rich and Poor.

v. Stifling social upward mobility

28. HOS policy has been in place for over 30 years, during which over 300,000 families had fulfilled their dream of being a “landlord”, not to mention the tens of thousands of cases involved in purchases via second hand market. It has a strong track record in helping low income people to make their own improvement on life quality and facilitating social upward mobility, in which individual effort actually brings about positive reward.

B. Oversimplified housing policy

29. It is evident that the Government, while leading social discussions over home ownership policy, has a tendency to oversimplify its housing policy in overall sense, whereupon people would make a wrong judgment. As a matter of fact, subsidized housing policy has made significant contributions to social stability and economic development in the past decades. As a node of utmost importance with respect to the housing policy as a whole, HOS policy fulfilled extra functions of improving people’s livelihood, as well as boosting social mobility. However, **Tsang’s administration has downplayed such importance of housing policy, as well as HOS policy accordingly. Selected examples are shown as follows:**

- **The policy goal of subsidized housing has been narrowed to the provision of rental housing to people in need only;**
- **Subsidized housing benefit is confined to people in need, therefore ignoring the needs of low income groups;**
- **HOS policy has been emphasized unilaterally by Tsang’s administration on its effect of facilitating turnover of public housing, whereas ignoring its economic significance, therefore biased;**
- **Despite the fact that the HA has lost the revenue from producing HOS flats, the Government failed to provide an alternative to safeguard HA’s financial sustainability in the future;**

- **Overall home ownership rate is treated as a taboo, therefore sidelining its contribution to community development and the long-term vision of Hong Kong.**

C. Guiding principles in relation to resumption of HOS

30. The Professional Commons is of the view that the resumption of HOS is an effective means to tackle the problems mentioned above. Moreover, it should be highlighted that HOS policy has been an integral part of the housing, social and economic policies at large. In the light of this, resumption of HOS policy is by no means an individual move but will involve fundamental changes regarding the overall policy ideas and principles. **Principles below should be ascertained by the Government when formulating policy concerning resumption of HOS, which include**

- **Home ownership is able to cultivate sense of citizenship and facilitate upward social mobility, which are the most important ingredient of social stability. The Government should be supportive and inject financial resources where appropriate;**
- **Public housing, as a social policy, should not only take care of the underprivileged, but also concern home ownership need from lower-income class;**
- **Provision of HOS flats and public rental housing can run in parallel;**
- **Public housing tenants who bought subsidized HOS flats can reduce their dependency on government's assistance on housing. Effective public housing turnover is expected to reduce the amount of rental flat production. On the other hand, sales of HOS flats can provide future public housing production with a more stable financial source, which is conducive to the sustainability of government's public housing policy.**

31. As the advantages of producing HOS flats are being undermined in official discourse, it would be important to clear up the misunderstandings for the sake of well-informed public judgments. Enabling public housing tenants to purchase HOS flat could help reduce their dependence on Government's assistance. Subsidies enjoyed by public housing tenants include land premium, as well as construction, maintenance and management costs. Comparatively speaking, subsidy enjoyed by HOS flat owners is restricted to the premium only. In addition, landlord's pride on their upgraded status of identity is something that cannot be quantified in monetary terms.

D. Specific Policy Recommendations

32. In the light of the lingering nature of “85,000 policy”, the Government should be cautious with the scope and quantity in relation to the production of new HOS flats. Initially, **the level should be set at 8,000 per year.**

33. In this regard, we suggest **these new 8,000 HOS flats would be distributed to green form and white form applicants in the ratio 7:3. By doing so, 5,600 units would be allocated to public housing tenants and those in the queue for public housing.** According to the Government’s statistics, rental units surrendered via purchase of first and second hand HOS and PSPS flats reached 3,500 and 4,200 in 2007 and 2008 respectively. In the light of this, it would be realistic to let public housing tenants absorb 5,000 HOS flats per annum, as far as their affordability is concerned.

34. **Given that the remaining 30% is to be allocated to white form applicants, about 2,400 units will be available annually, which is rather close to the gap between the volume of take-up and completion in the past 5 years (about 2,550 units. Details please refer to Table 1).** Such a move will not endanger the stability of the property market even though the private sector has to absorb 2,400 new HOS flats within a year.

E. Three “Key Questions”: make simple situation complicated

35. Three “key questions” have been raised by the Government in the final part of the consultation paper. These questions cover a scope with exceeding depth and broadness so that it is difficult for ordinary people to have them thoroughly digested, not to mention giving convincing answers. By doing so, **the Government had made relatively simple problem complicated. We are of the view that a thorough review of the subsidized housing policy as the requisite for further discussion of HOS resumption is not necessary. It is merely an artificial obstacle to scare people off and therefore make them believe that HOS is not a panacea.** In fact, most public policies, before being gazetted as a final policy document, need community-wide deliberations across the society, continuous consultations by the Government, as well as negotiations and debates amongst the lawmakers. Furthermore, the grace period, education and campaigns, as well as pilot projects are usual practices before implementation of a full scale. Full indoor smoking ban and minimum wages legislation

are amongst all the typical examples. **In view of such a controversial issue (home ownership), it is like seeking a needle in bundle of hay for the whole society to reach a consensus during such a short consultation period of a few months. As a soft option, the Government is advised to move step by step, narrow down the scope of review into the issue related to new HOS flat supply, and then determine what to do next subject to changing needs on housing in the future. In fact, the existing HOS policy has a strong proven record and therefore well-received across the community. This well-established policy can provide clear answers to the above-mentioned three key questions including why to sponsor, whom to sponsor and how to sponsor.**

36. In addition, **The Professional Commons opposes any form of home assistance loan schemes**, as it may incur serious moral hazard problems. The Government is advised not to subsidize ordinary citizens to buy property in the turbulent and volatile property market. Furthermore, **it is highly likely that home assistance loan will push up the demand for private residential units, therefore adding fuel to the already soaring property prices and then imposing excessive burden on ordinary buyers.** The policy impact of the loan-related proposal would be far from satisfactory in view of nil adjustment on housing demand and supply, as well as on people's burden of housing. More importantly, there would be adverse effects on the property market if the Government gave up producing HOS flats while subsidizing people to buy private property. The market would be given a wrong message which the Government is not going to intervene with the market at all times. In so doing, the developers would subsequently take a complete control over property supply, then come a public perception of alleged collusion between government and businessmen.

37. Recently, land supply for the resumption of HOS was presented as a problem by the Government, as revealed by questions of how land for public and private residential units can respectively be squeezed for production of HOS flats. Members of the public are requested to make an either-or-not choice over this "dilemma" created by the Government. On 20th August, when retorting to the Professional Forum and FTU's request to provide new HOS flats, the Chief Executive kept asking if they can find lands for the Government. This argument seems dubious because, as clearly illustrated by the final report of "Hong Kong 2030 Planning Vision and Strategy", the Government planned to house the new population, which is amounted to 1.6 million by 2030, in urban areas, new towns and New Development Areas, etc. across the territories according to the "Preferred Development Option". Land shortage has never been highlighted in the

report. Also, **there has been no significant population growth in recent years, therefore the demand on land should be within the original planning and forecast. In the light of this, land allocated to public housing, subsidized housing and private housing is only subject to the maneuver of resource distribution, rather than the actual shortage of land. Against this background, it is obvious that the Government has exacerbated the shortage of land for HOS flats. More importantly, as far as the maneuver of land distribution is concerned, there still exists a sizable land bank for the Government to deploy. It is not acceptable for the Government to confront land use for public housing with others, as it would alienate different strata of the society.**

Back to the Basics

38. HOS was widely perceived as an effective policy measure before the handover. The colonial government provided people in need with rental flats, while HOS flats were being produced to expedite turnover of public housing, as well as to help grass-root people improve their livelihoods. All these have been fundamental to the social harmony and stability for the last few decades. In the light of this, the SAR Government is not advised to put such an effectual policy measure on shelf just because of the emergence of short-term economic torments. Even worse, the SAR Government has confined its responsibility to only meeting the basic need of living for those in desperate need, while further need including livelihood improvement and upward class mobility are being ignored. This is not what a “politician” with soul and passion should behave.

39. Benefits for producing moderate amount of HOS flats are so apparent that the CE is advised to step up the portion to be spent on housing out of the total public expenditure to rectify government’s ignorance over the basic need for decent living conditions in the past few years. Such a move is of utmost importance to rekindle people’s hope for betterment of their livelihood.

2010.9.9