

**Memorandum for the Subsidised Housing Committee of
the Hong Kong Housing Authority**

**Initial Assessment of the Interim Scheme to Extend the Home Ownership
Scheme Secondary Market to White Form Buyers**

PURPOSE

This paper provides an initial assessment of the Interim Scheme to Extend the Home Ownership Scheme Secondary Market to White Form Buyers (the Interim Scheme) and seeks Members' endorsement of the proposed way forward.

BACKGROUND

2. Flats under the Home Ownership Scheme (HOS) and the Tenant Purchase Scheme (TPS) of the Housing Authority (HA), as well as flats under the Flat-for-Sale Scheme (FFSS) of the Hong Kong Housing Society (HKHS) are subsidised sale flats. Premium has to be paid in order to trade these flats in the open market. Alternatively, these flats may be sold to households with Green Form status¹ (GF buyers) without payment of premium in the HOS Secondary Market. As at end September 2014, there are a total of about 380 000 HOS, TPS and FFSS flats with premium not yet paid that can be sold in the HOS Secondary Market.

3. To address the home ownership aspirations of White Form (WF) applicants², the Chief Executive (CE) pledged in his election manifesto (and announced again in the Legislative Council (LegCo) on 16 July 2012) that before new HOS flats are released onto the market, an interim scheme will be in

1 Those eligible for Green Form status include sitting Public Rental Housing (PRH) tenants and PRH applicants who have passed the detailed eligibility vetting and are due for allocation of PRH in about a year's time.

2 White Form applicants have to satisfy certain eligibility criteria including residence rule, and the income and asset limits set by the HA.

place to allow 5 000 WF applicants annually to purchase flats without premium paid in the HOS Secondary Market. The effectiveness and the quota will be reviewed after a period of time.

Relevant facts and data of the Interim Scheme

4. On 12 September 2012, Members endorsed the Interim Scheme with an annual quota of 5 000³ (see paper No. SHC 54/2012). At the meeting on 29 November 2012, Members agreed that the income and asset limits for the Interim Scheme should be \$40,000 and \$830,000 respectively for family applicants; and \$20,000 and \$415,000 respectively for one-person applicants (see paper No. SHC 68/2012). We received around **66 000 applications** during the application period from 4 to 18 January 2013; conducted initial screening⁴ on these applications before an open ballot was held on 18 February 2013 to determine the priority for quota allocation; and then conducted detailed vetting⁵ in accordance with the priority. We issued 2 500 Approval Letters to successful applicants on 31 May 2013, and another 2 500 on 31 December 2013. We did this in two batches to enable the market to absorb the increase in potential buyers in a gradual and managed manner.

5. In the HOS Secondary Market, the seller requires a Certificate of Availability for Sale and the buyer needs a Certificate of Eligibility to Purchase (CEP) for them to enter into a provisional agreement for sale and purchase. The buyer's solicitor will apply to the HA for a Letter of Nomination (LN) to

3 In SHC paper No. SHC 54/2012, we explained that taking into account the application process and that the quota will be released in two batches, we will have a cycle of 5 000 quota approved over roughly every 15 to 16 months.

4 Initial paper screening of the 66 000 applications was conducted primarily to check that the income and assets as declared by the applicants met the criteria; that the applicants had lived in Hong Kong for seven years; and that the cheques for the non-refundable application fee were correctly addressed.

5 Although the quota for the Interim Scheme was 5 000, we had conducted **detailed vetting of about 7 000** applications since past experience indicated that there would bound to be applications which were found not eligible during the detailed vetting stage.

enter into an agreement for sale and purchase⁶.

6. Under the Interim Scheme, WF buyers apply for CEPs from the HA if they want to buy HOS/TPS flats, and from the HKHS if they want to buy FFSS flats in the HOS Secondary Market. They have to submit their CEP applications within six weeks upon issue of the Approval Letters and payment of relevant fees. A CEP is valid for six months from the date of issue. WF buyers may apply for a one-off extension of the CEP for six months, subject to another vetting to ensure they remain eligible and payment of the relevant fees. Solicitors representing WF buyers handle the applications for LNs from the HA.

7. Of the 5 000 Approval Letters issued, **3 983** holders of Approval Letters **applied for CEPs** from the HA and/or the HKHS. **As at end September 2014**, 2 165 LNs were issued, of which **2 161 transactions** were eventually **completed**. About **750** applicants are still holding **valid CEPs**. The validity of all CEPs, including those with validity period extended, will expire by March 2015. As a CEP holder can apply for an LN within one month of the signing of the provisional agreement for sale and purchase, the final total number of successful transactions under the Interim Scheme will only be known in April 2015.

8. The Interim Scheme is not without controversy even before it was launched. Some media commentaries took the view then that the prices of subsidised sale flats in the HOS Secondary Market, and even the prices of flats in the open market, might have been markedly affected by the Interim Scheme. A number of LegCo members even accused the Government for driving up the prices of subsidised sale flats. The LegCo Panel on Housing passed a motion in November 2012, urging the Government to call off the scheme. In response, the Government committed to reviewing the Interim Scheme and reverting to the Panel on the review.

6 HOS flats are subject to paragraph 4 of Schedule 1 to the Housing Ordinance (Cap 283), which provides that “Notwithstanding that the purchaser has not paid the premium ..., he may, ... (c) where 2 years has elapsed since the date of the first assignment of the land ... enter into any provisional agreement for sale and purchase, agreement for sale and purchase, or assignment, *provided that* – (A) the person entering into the provisional agreement for sale and purchase as the purchaser *is certified by the [Housing] Authority* as a person eligible to buy relevant land; (B) the person entering into the agreement for sale and purchase, and the assignment, as the purchaser is a person *nominated* for the purposes of this subparagraph *by the [Housing] Authority* to buy particular relevant land; and ...”

9. With the completion of the first round of the Interim Scheme by April 2015, we have conducted an initial assessment of the scheme, as set out in the ensuing paragraphs.

THE ASSESSMENT

Impact of the Interim Scheme

(a) Number of WF buyers benefited from the Interim Scheme

10. As the first batch of new HOS flats will not be completed until 2016/17, the Interim Scheme has provided WF buyers an additional channel, previously not available to them, to purchase subsidised sale flats in the interim period. As at end September 2014, 2 161 households with WF status had achieved home ownership via the Interim Scheme. Although some critics highlight the about 50% drop out rate thus far (as compared to the 5 000 quota) and consider the Interim Scheme to be unsuccessful, the fact remains that the Interim Scheme has enabled 2 161 households to purchase housing.

(b) Impact on GF buyers

11. From 2003 to 2012, annual transactions in the HOS Secondary Market ranged from 1 710 to 2 840, with an average of about **2 100** transactions per annum. After the introduction of the Interim Scheme, the average annual number of transactions (annualised from figures from June 2013 to September 2014) increased to about 2 810, comprising about 1 620 transactions made by WF buyers and about 1 190 transactions by GF buyers. The decrease in the number of purchases made by GF buyers may be due to the general price increase in the property market during the period and also the competition from the WF buyers. There are criticisms that the Interim Scheme has reduced GF buyers' home ownership opportunity.

(c) Number of new households benefitted

12. However, if we count both WF and GF buyers, the total number after the launch of the Interim Scheme is larger than that before, as shown below –

**Number of new households benefiting from
the HOS Secondary Market**

	(a) Annual average numbers before the Interim Scheme (2003 to 2012)	(b) Actual numbers after the issue of Approval Letters under the Interim Scheme (June 2013 to September 2014)	(c) Annualised numbers from column (b)
WF buyers directly benefiting from the Interim Scheme	0	2 161	1 621
GF buyers purchasing subsidised sale flats; PRH flats released as a result	2 100	1 590	1 193
Total	2 100	3 751	2 814

(d) Impact on price

13. By adding new buyers to the HOS Secondary Market, the Interim Scheme could theoretically put upward pressure on flat prices in this market segment. Transactions data from August 2012 to June 2014 (after the announcement of the Interim Scheme) indicated that flat prices in the HOS Secondary Market rose by 35%, compared to the general increase of 22% in prices of private small and medium-sized flats⁷. Nonetheless, these figures should be interpreted with care. Property transactions prices during any period are subject to the influence of an array of factors including macroeconomic environment, demand-supply balance, interest rate outlook and other Government policies, as well as the attraction of property locations. It is, therefore, difficult to tell precisely how much of the faster price increase in HOS Secondary Market noted above was attributable to the Interim Scheme.

⁷ Small and medium-sized flats refer to flats less than 100 m².

Possible Ways Forward

14. As shown in the above analysis, the Interim Scheme has achieved its objectives of helping some lower to middle-income households to achieve home ownership. To the same extent it has met the need of the sellers, and improved the circulation of the HOS Secondary Market. On the other hand, prices in the HOS Secondary Market seemed to have risen more than that in the private market after the announcement of the Interim Scheme, though it is difficult to tell how much of this higher increase was due to the Interim Scheme alone. There are a number of ways forward, as detailed in the ensuing paragraphs.

(a) Terminating the Interim Scheme

15. Terminating the Interim Scheme will eliminate whatever effect that the Interim Scheme may have on prices. With the resumption of the HOS programme starting from the pre-sale of new HOS flats in end 2014, we may argue that there is no longer a need for an interim scheme.

16. However, the number of new flats in the first batch is limited : there are only 2 160 flats, for which WF buyers will have to compete with GF buyers. This supply may fall short of the demand from WF buyers. Terminating the Interim Scheme would deny WF buyers of an additional supply.

(b) Opening up the HOS Secondary Market to WF buyers completely on a recurrent basis without setting any quota

17. Opening up the HOS Secondary Market to WF buyers on a recurrent basis and without setting any quota can provide WF buyers with an additional source of flat supply, meet the need of sellers and improve the circulation of the HOS Secondary Market. There is also suggestion that if the Interim Scheme becomes a permanent feature with no quota set, WF buyers would take their own pace and would not rush into making purchases.

18. However, it is difficult to predict the effect of an expanded scheme that is permanent and without quota on prices. In particular, if we do not set any quota, we cannot rule out the risk of a surge in applications, to the extent of even more than the 66 000 applications received in January 2013 when the Interim Scheme was launched. This could impact prices, and go against the Government's efforts in cooling down the property market through the introduction of various demand-side management measures.

19. In case of such surge of applications, the Housing Department would need to substantially beef up its manpower. Much of such resources and the efforts that applicants themselves have to put in will be unproductive given the limited supply of flats.

(c) Implementing the Interim Scheme on a recurrent basis but with a quota

20. By extending the Interim Scheme on a recurrent basis but with a quota to be set annually, we can enjoy the benefits of opening up the HOS Secondary Market to WF buyers, but in a managed manner. The upsides and downsides would depend on the size of the quota, which can be adjusted. In the first round of the Interim Scheme, the 5 000 quota were released in two batches, each comprising 2 500. Therefore, we can reasonably start with a quota of 2 500, and review the quota as and when necessary.

(d) Implementing one more round of the Interim Scheme to test out its effect

21. As discussed above, with the experience of only one round of the Interim Scheme, there are still uncertainties about the full and exact impact on prices for us to determine the future of the Interim Scheme. Given the strong demand for subsidised sale flats in the society nowadays (especially from WF applicants), we consider it prudent to release **one more round of 2 500** quota in **mid-2015** to better test out the effect of the Interim Scheme before we come to a firm view on its future. It is also relevant that after the pre-sale of the first batch of new HOS flats in end 2014, the next round of pre-sale of HOS flats is tentatively scheduled for mid-2016. Launching one more round of Interim Scheme in mid-2015 would help address the home ownership aspirations of WF buyers in the interim. The limited quota suggested is not expected to have significant impact on the private property market.

Streamlining of operations should one more round of the Interim Scheme be conducted

22. If Members agree to implement one more round of the Interim Scheme, we propose the following changes to the Scheme to streamline the procedures.

(a) Better utilisation of the quota

23. Under the Interim Scheme, the number of Approval Letters issued equaled the quota set, i.e. 5 000. Some of that quota was “wasted”, as some

successful applicants did not proceed further. To fully utilise the quota, we propose that in future, if successful applicants do not collect CEPs within the prescribed period of six weeks, one more round of Approval Letters should be issued to top up the unused quota according to the priority of applicants.

(b) *Validity of the CEP*

24. A CEP is valid for six months and successful applicants may apply for a one-off renewal for another six months. About 38% of the WF applicants applied for extension of the CEP, which suggests a considerable demand for a longer validity period. Besides, apart from a few exceptions, most CEP renewal applications were approved. We therefore propose to lengthen the validity period of CEP from six months to 12 months. We propose to similarly lengthen the validity of CEP to GF buyers.

(c) *Simplifying the administrative procedure*

25. We are planning to simplify some administrative procedures. For example, under the Interim Scheme, successful applicants have to apply for an Approval Letter and then a CEP with payment of fees within six weeks of the issue of the Approval Letter. To simplify procedures, successful applicants issued with the Approval Letter will no longer need to apply for the CEP; they need only collect CEPs upon payment of fees.

26. We will also simplify the steps that successful applicants and we have to go through to ascertain eligibility. Specifically, we propose that detailed vetting of eligibility should only be conducted once, i.e. before the issue of the Approval Letters. The checking on income and asset limits previously conducted at the LN stage will be omitted, but we will still conduct duplication check to ensure that the applicants have no double housing benefits, and we will also check the records of Land Registry to ascertain that no charge has been registered against the property to be purchased⁸. We propose to adopt similar arrangements for GF buyers.

8 In accordance with the established mechanism, we will still select 2% of the completed cases (i.e. transactions registered in the Land Registry) for random detailed checking in respect of the applicants' income, assets and property ownership. If irregularities are detected, the cases will be referred to the Prosecutions Section for follow-up action. Hence, there should be sufficient safeguard against abuse.

RECOMMENDATIONS

27. Members are invited to endorse the following recommendations -
- (a) before conducting a full review of the Interim Scheme, to implement one more round of the Interim Scheme in mid-2015 but with a reduced quota of 2 500 (paragraph 21(d)); and
 - (b) to implement certain changes to the scheme (paragraphs 23 to 26).

FINANCIAL AND STAFFING IMPLICATIONS

28. If Members agree with our recommendations in paragraph 27 above, and on the understanding that we can stagger the applications for the Interim Scheme in between two pre-sale exercises of new HOS flats, our initial assessment is that we need an additional manpower of 10 Housing Grade Officers and clerical staff (in addition to internal redeployment of staff) for a period of 18 months. We expect that the cost for implementing the proposal (estimated at about \$9M), including additional staff cost, publicity, printing of application documents, postage, data capture and processing, can be recovered by income from the relevant fees.

PUBLIC REACTION AND PUBLICITY

29. Those eligible for WF status should welcome the proposal. There may be criticism that the proposal would further raise the prices of flats in the HOS Secondary Market. In response, we will point out that more than 2 100 households have benefited from the Interim Scheme, without which some buyers might have found it difficult to purchase private housing in the open market. Introducing one more round of the Interim Scheme will allow WF buyers an extra channel to achieve home ownership. We have also reduced the quota to address potential concern on the possible impact of the scheme on flat prices.

30. On publicity, we will follow the practice of the previous round and arrange for posters, newspaper advertisements and broadcasts on radio during the application period. We will also issue press release and put relevant information on the HA/HD website.

DECLASSIFICATION

31. It is recommended that this paper be declassified after the meeting. The paper will be made available to the public at the HA/HD homepage, the HD Library and through the Departmental Access to Information Officer if it is declassified.

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