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Background

In January 2001, the Hong Kong Housing Authority (the Authority) established an Ad Hoc Committee on Review of Domestic Rent Policy (the Committee) to conduct a comprehensive review of its policy governing the fixing and adjustment of the rents of public rental housing (PRH). The objective is to recommend a rent structure that is affordable, more rational and flexible, provides greater choice to tenants, and helps to promote the long-term sustainability of the public housing programme. This consultation paper seeks the community’s views on the initial findings of the Committee.

2001年1月，香港房屋委員會（下稱「房委會」）
成立檢討公屋租金政策專責小組委員會（下稱「專責小組委員會」），全面檢討房委會釐定和調整租住公屋（下稱「公屋」）租金的政策。檢討的目的，是要提出租戶能負擔、更合理和更具彈性的租金架構，為租戶提供更多選擇並促進公共房屋計劃的長遠持續發展。這份諮詢文件邀請各界人士就專責小組委員會的初步結果提供意見。
The Problems

The Committee has identified a number of key problem areas in the current rent policy framework. These include –

(a) the statutory median rent-to-income ratio (MRIR) provision of 10% following any rent increase has imposed an unprecedented constraint upon the Authority’s power to adjust its domestic rents to meet its policy and financial objectives;

(b) the recent increase in MRIR has been brought about by a combination of extraneous factors other than changes in rents and household income. It calls into question whether MRIR as a measure of tenants’ affordability still meets the modern day requirements and, if so, whether the current methodology for its assessment has scope for improvement;

(c) MRIR has been contrived as a general measure of tenants’ affordability rather than a mechanism for rent adjustments. Another fundamental question to be addressed is whether a more well-defined alternative mechanism should be put in place to guide rent adjustments; and

(d) the rigidity of the existing rent structure has limited the Authority’s flexibility to fix rents in a more rational and fairer manner. It has reduced the choice available to tenants to select flats that suit their needs and affordability.
The Committee has put forward various options in this consultation paper to address the key problems identified.

**Measuring Tenants’ Affordability**

MRIR has long been adopted by the Authority as a reference for measuring tenants’ affordability in broad terms, but not a mechanism to guide rent adjustment. It is assessed by placing the rent-to-income ratios of individual PRH households in an ordered sequence. The middle rent-to-income ratio is the MRIR. However, after the amendments to the Housing Ordinance, which came into operation in March 1998, MRIR has been given statutory effect to limit the extent of any rent increases, i.e., the MRIR shall not exceed 10% following any rent increases.

The movement of MRIR is affected by a host of interwoven and complicated factors other than changes in rent levels and tenants’ income. These include a sharp growth in the number of tenants receiving Comprehensive Social Security Assistance (CSSA), major improvement in tenants’ living space, supply of new PRH estates, redevelopment of older estates, exit of higher income tenants and increase in the number of elderly and small households. It is therefore questionable whether MRIR, given the way that it is being assessed, is a good indicator of affordability and, least of all, a suitable mechanism for determining rent adjustment.

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1 See para. 2.22 of the consultation paper on “Implications of the Court of Final Appeal’s Ruling” regarding the judgment of the Court of Final Appeal delivered in November 2005.
Alternative Options for Measuring Affordability

As long as the Authority continues to uphold its policy that rents should be set at affordable levels, it seems necessary to develop some form of indicator to measure tenants' affordability. The Committee has considered the following alternative options for this purpose —

(a) different MRIRs for different groups of households according to household income, types of estates or household size;

(b) a fixed rent-to-income ratio for rent setting such that all tenants would pay a fixed percentage of their income as rents; and

(c) the so-called “residual income approach” which, after deducting from the tenants' household income the necessary non-housing expenditure required for maintaining an acceptable standard of living, charges the residual portion of the income as rents.
While the above options could address to different extent the problem of having a uniform MRIR for assessing the affordability of all the PRH tenants, their implementation is riddled with problems. Most notably, they require individual assessment of the income of all the PRH households, the administrative cost of which would be enormous and easily outweigh any intended benefits. Some of these options also fail to take into account other factors, such as flat size and location, that are crucial to rent fixing and flat allocation. Overall, the Committee considers that tenants’ affordability should best be assessed generally and collectively. Any alternative measure of affordability should be considered in the overall framework of the domestic rent policy, and must be simple and easy to operate. At the individual level, a more effective way to address the problem of affordability would be through the CSSA and the Rent Assistance Scheme operated by the Authority.
Improvements to the Assessment of MRIR

Should MRIR be retained as a measure of affordability in the absence of other better and operationally viable alternatives, the Committee considers that the methodology for its assessment needs to be rationalized. The current practice of including tenants receiving CSSA and tenants paying additional rents under the Housing Subsidy Policy or the Policy on Safeguarding Rational Allocation of Public Housing Resources in the calculation of MRIR has distorted the assessment of affordability. The use of all-inclusive rents, which include rates and management expenses, for assessing MRIR also fails to reflect the true amount of rents charged by the Authority. To enhance MRIR as a measure of tenants’ affordability, the Committee has identified the following possible options to improve its assessment –

(a) collecting more reliable income data by way of a declaration system;

(b) excluding CSSA recipients and tenants paying additional rents from the calculation of MRIR; and

(c) compiling MRIR based on net rents, i.e., excluding rates and management expenses.
Alternative Rent Adjustment Mechanism

MRIR was contrived as a broad indicator of affordability. The Authority had never intended to use MRIR as a rent adjustment mechanism. The provision under the Housing Ordinance that MRIR shall not exceed 10% following any rent increase has blurred the distinction between an affordability indicator and a rent adjustment mechanism.

The Committee is of the view that ideally the best form of rent adjustment system should embrace all the relevant considerations, including tenants’ affordability, the prevailing economic conditions such as inflation/deflation, income movements, comparative estate values, management and maintenance expenses and the Authority’s overall financial position. Nonetheless, it does recognize that there has been a strong demand from PRH tenants that rent adjustments should be guided by a transparent and well-defined mechanism. Four rent adjustment reference indexes based on movements in consumer price or tenants’ household income are identified –

(a) Consumer Price Index (A) (CPI (A));
(b) CPI (A) excluding housing expenditure;
(c) Median Monthly Household Income; and
(d) Average Monthly Income Index.

其他租金調整機制

計算租金與入息比例中位數的目的，是作為衡量負擔能力的概括指標。房委會從來無意以這個中位數作為調整租金的機制。《房屋條例》關於加租後租金與入息比例中位數不得超過 10% 的規定，已把負擔能力指標與租金調整機制的區別變得模糊。

專責小組委員會認為，最理想的租金調整制度，應包含所有相關考慮因素，包括租戶的負擔能力、當前經濟環境（例如通脹/通縮）、入息變動、屋邨的比對價值、管理和維修保養開支，以及房委會的整體財政狀況。另一方面，專責小組委員會亦明白，公屋租戶一直強烈要求渴望以一個明確且具透明度的機制來指導租金調整工作。專責小組委員會因此研究了四個以消費物價或住戶入息為基礎的租金調整參考指數：

(a) 甲類消費物價指數；
(b) 豁除住屋開支的甲類消費物價指數；
(c) 住戶月入中位數；以及
(d) 每月平均入息指數。
Option (a) seeks to guide rent adjustments according to the movements of CPI(A). This system is simple and easy to operate. However, as PRH rents form an important component for compiling CPI(A), adjusting PRH rents according to movements in CPI(A) will bring about a corresponding change to CPI(A), thereby creating a spiral effect on PRH rents and CPI (A). Option (b) aims at overcoming this drawback by discounting the impact of rental changes on CPI(A). This modified CPI(A) index provides for rent adjustments in accordance with the movements of non-housing related price levels that are free from the spiral effect under option (a).

Adjusting rents with reference to price movements may not reflect closely tenants’ affordability. In this connection, income-based indexes may provide a closer linkage to tenants’ affordability. Option (c) provides for a simple income-based index which seeks to adjust rents based on changes in the median monthly household income of tenants. However, there is a high risk of distortion with this option as median household income is affected not only by changes in income level but also household size distribution. Median household income could drop simply due to an increase in the number of small households whose income levels are usually lower than those of large households. Option (d) can avoid this distortion by compiling an average monthly income index that tracks “pure income changes” and discounts the influence of household size distribution.
除了選取最合適的指數外，亦須考慮下列問題：

(a) 房委會應否純粹按照建議的指數調整租金，還是應該兼顧上文第10段所載的其他因素；以及

(b) 應否賦予建議的指數法定效力。

### 不劃一租金

就釐定租金而言，房委會現時把全港劃分為六個地區。同一地區內新屋邨的租金均劃一釐定，租金只會因單位面積不同而出現差距。現行的租金釐定機制有欠靈活，給予租戶的選擇太少。實施不劃一租金制度，更能反映不同單位的租值，令制度更公平，並為租戶提供更多選擇。

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專責小組委員會審議了兩個推行不劃一租金的模式。第一個模式雖然未能顧及所有因素，卻較易實行。根據這個有限度的模式，在六個概括劃分的地區內，每區（離島區除外）的屋邨會再細分為三組，以更確切地反映地點、交通、環境和康樂設施等方面的差別。此外，同一幢大廈個別單位的租金會根據大廈以內的若干客觀因素（如樓層和是否鄰近垃圾房等不受歡迎設施等等）而作出調整。根據這個模式，同一幢大廈內相若單位的租金，最大差幅約為 15%。第二個模式包含上述的調整，但在釐定同一幢大廈內不同單位的租金時，內在和外在（如景觀和坐向）兩方面的因素均會列入考慮，而租金差距幅度會擴大至 30% 左右。

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The Authority currently divides the territory into six geographic districts for rent setting purposes. The rents of new estates within a district are set uniformly and differ only according to the sizes of the flats. The current rent setting mechanism is too rigid and provides too little choice to tenants. Implementation of a system of differential rents could better reflect the rental values of different units, enhance fairness and provide greater choice to tenants.

The Committee has examined two models of differential rents. The first model is less comprehensive but easier to administer. Under this moderate model, the six broad districts (except the Islands district) should each be further divided into three sub-groups to better reflect the differences in terms of location, transportation, environment and amenities. In addition, the unit rents of flats in the same block would be adjusted in accordance with a number of objective factors that are internal to the block (e.g. floor levels, proximity to unwelcome facilities such as refuse chamber, etc.). The maximum rent differential for similar-sized units in the same block under this model is expected to be around 15%. The second model embraces the same key features of the first model, except that both internal and external factors (e.g. view and orientation) would be taken into account for setting the rents of different units in the same block. This would result in a larger rent differential of around 30%.
The Committee is of the view that the proposed system of differential rents, if introduced, should first be applied to newly completed estates. Consideration could be given to extending the system to existing estates in the longer term, taking account of the impact on the existing tenants.

The Committee has also examined the potential implications of introducing a system of differential rents for flat allocation to CSSA households. As their rents are fully covered by the CSSA allowance, CSSA recipients do not have to consider their affordability when choosing PRH units. If flats of similar size but different rents are available in the same district or estate, it is for consideration whether flats with relatively higher rents should be allocated to CSSA recipients, taking account of the impact on MRIR and the amount of public subsidies to be incurred.

Exclusive Rents

Rents charged by the Authority are currently inclusive of rates, management fees and maintenance expenses. To better reflect the actual amount of rents collected by the Authority, the Committee agrees in principle that the Authority should consider moving towards charging net rents exclusive of rates and management fees in the longer term. However, having considered the operational difficulties of introducing exclusive rents and potential inconvenience to tenants, the Committee believes that a more practical alternative would be to continue to charge inclusive rents but separately set out the amount of rates and management fees in an annual statement to be issued to individual tenants to enhance transparency. This transparency measure would help provide tenants with a better understanding of the costs incurred in operating PRH and the amount of net rents charged by the Authority.
**Fixed-Term Tenancy**

PRH units are let on a month-to-month term until termination by the tenants or the Authority. The Committee has examined the pros and cons of replacing monthly tenancy by fixed-term tenancy. The most commonly held argument in favour of introducing fixed-term tenancy is to put an end to the misconception that PRH tenants can enjoy public housing subsidies indefinitely. The downside is that fixed-term tenancy may severely constrain the Authority’s latitude in taking enforcement actions against tenants in breach of tenancy conditions and introducing rent adjustments.

It should also be stressed that, in strict legal terms, monthly tenancy does not confer any right on the tenants to perpetuate their stay in PRH. In this respect, the Committee notes that the Authority has already put in place a number of policies, notably the Housing Subsidy Policy and the Policy on Safeguarding Rational Allocation of Public Housing Resources, which specifically deal with the eligibility of sitting tenants to continue their stay in PRH. The Committee is of the view that should the eligibility criteria need any tightening up, this should best be achieved through a proper review of the relevant policies rather than the introduction of fixed-term tenancy.

**Rent Fixing and Review Cycles**

The Authority conducts two rent fixing exercises each year for newly completed PRH estates and reviews the rents for existing PRH estates in batches. Given that new PRH estates would be completed and rolled out for letting throughout the years, the Committee considers that it is necessary to maintain the current arrangements of having two rent fixing exercises each year. As regards the frequency of rent reviews, it favours a biennial rent review cycle in normal circumstances, noting that this would allow timely implementation of any rent adjustments so warranted while keeping the extent of adjustments within a moderate range.
The Committee has also examined whether the present practice of dividing PRH estates into batches for rent review should continue. Should the proposed index-linked rent adjustment mechanism based on movements in price or household income be adopted, it would be more sensible and equitable to apply any proposed rent adjustments across the board to all PRH estates.

Relationship between Flat Size, Rents and Tenants’ Affordability

One of the key factors leading to the soaring MRIR is a major improvement in tenants’ living space. The average living space per person for newly let units reached 12.3 m² internal floor area (IFA), well above the upper tier of the approved allocation standards of 7 m² IFA. When tenants are allocated flats that far exceed the allocation standards, it aggravates their rental burden and lifts the MRIR. To avoid further worsening the situation, the Committee agrees in principle that:

(a) the Authority should follow as far as possible the established flat allocation standards; and

(b) the overall flat mix of new PRH projects should be planned according to the household size distribution of Waiting List applicants and other prospective tenants. It should also be reviewed regularly and adjusted as necessary.

單位面積、租金和租戶負擔能力之間的關係

導致租金與入息比例中位數飆升的主要因素之一，是租戶的居住面積大幅增加。新出租單位的人均居住面積達12.3平方米室內樓面面積，遠高於7平方米室內樓面面積這個較高的核准編配標準。向租戶編配遠高於編配標準的單位，不但會加重他們的租金負擔，而且會導致租金與入息比例中位數上升。為免情況進一步惡化，專責小組委員會原則上同意：

(a) 房委會應盡量按照既定的編配標準編配單位；以及

(b) 新公屋項目的整體單位組合，應根據輪候冊申請人和其他準申請人的家庭人口分布來規劃，並應定期檢討和按需要調整。
We welcome public’s feedback on these important issues. In the light of the outcome of this consultation, the Committee will draw up its recommendations for submission to the Authority.

In December 2005, the Subsidized Housing Committee of the Authority further enhanced the Scheme by offering 25% rent reduction to those non-elderly households with rent-to-income ratios exceeding 20%. It also agreed to lift the three-year residence requirement for tenants living in older block types. These further improvement measures have taken effect since 1 March 2006.

The Next Step

The Committee has reviewed the operation of the Rent Assistance Scheme and recommended improvements covering three major areas. These include relaxing the eligibility criteria for the elderly (from exceeding a rent-to-income ratio of 25% to 20%); allowing tenants affected by the Comprehensive Redevelopment Programme to apply for rent assistance immediately upon re-housing to newly built units; and extending the grace period after which Rent Assistance Scheme recipients are required to move to more affordable flats from two to three years. These improvement measures were endorsed by the Authority and have taken effect since October 2002.

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Review of Domestic Rent Policy Consultation Paper

Executive Summary