

LCQ7: Land premium arrangements for the housing projects of the Hong Kong Housing Society

Following is a question by the Hon Andrew Wan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 27):

Question:

The Government revised in January 2019 the arrangements for payment of land premiums by the Hong Kong Housing Society (HKHS) for its housing projects, namely (i) for its rental estates: reducing from one third of the full market value of land premium (FMVP) to a nominal premium at \$1,000, (ii) for the domestic portions of subsidized sale flat (SSF) projects: reducing from one half to one third of FMVP and (iii) for the non-domestic portions of SSF projects: maintaining the arrangement of charging FMVP. In this connection, will the Government inform this Council:

(1) of the year in which the Government started charging land premiums equivalent to one third of FMVP for the rental estates developed by HKHS, the justifications for pitching the amount of land premiums at that rate, and the reasons for not charging premiums at a lower rate at that time;

(2) given that HKHS and the Hong Kong Housing Authority (HA) alike build public rental housing units, whether the Government will waive the land premiums charged to HKHS for its rental estates so as to align the land premium arrangements for the two bodies; if not, of the reasons for that;

(3) of the year in which the Government started charging land premiums equivalent to one half of FMVP for the domestic portions of SSF projects developed by HKHS, the name of the first housing court for which a land premium at that rate was paid, the justifications for pitching the amount of land premiums at that rate, and the reasons for not charging premiums at a lower rate at that time;

(4) of the date the FMVP of which is used as the basis for calculating the land premiums payable by HKHS for its SSF projects;

(5) given that HKHS has to pay land premiums for its SSF projects, whereas HA only has to pay land costs (the actual amounts of which are lower) and a nominal premium at \$1,000 for such type of projects, whether it has assessed if this situation was the primary reason leading to the higher per-square-foot prices for the relevant units sold by HKHS as compared with those of the units sold by HA; if it has assessed, of the results;

(6) as some members of the public have pointed out that low income families

have found those units under HKHS' SSF projects unaffordable given their relatively higher prices, whether the Government will consider amending the land premium arrangements for the housing projects of HKHS to align them with those for HA;

(7) whether it knows the following details of each of the housing projects developed/to be developed by HKHS in the past five financial years and in the next three financial years respectively (set out in a table):

- (i) category to which the project belongs (namely rental estate, Flat-for-Sale Scheme or SSF project),
- (ii) name of the housing estate/court,
- (iii) district in which the housing estate/court is located,
- (iv) financial year in which the site concerned was/will be handed over by the Government,
- (v) date/prospective date on which public applications were/will be accepted for occupancy/purchase,
- (vi) number of units,
- (vii) prices/prospective prices (if applicable),
- (viii) land premium payable (in million dollars), and
- (ix) average land premium per unit (in million dollars); and

(8) whether the Government will consider, where the non-domestic portions of HKHS' SSF projects include social welfare and community facilities, waiving the land premiums concerned or charging a nominal premium only?

Reply:

President,

The Hong Kong Housing Society (HKHS) is an important partner of the Government's housing policy and plays an active role in providing low to middle-income families with rental units and subsidised sale flats (SSF). The HKHS has been developing subsidised housing projects on a self-financing basis on sites granted to the HKHS by the Government at concessionary land premium.

Having consulted the Lands Department, my consolidated reply to the question is as follows:

(1) and (3) The Government had been charging land premium at one-third of the full market value (FMV) for HKHS' rental estate projects since 1950s. The then Government considered that the relevant concessionary premium was adequate in enabling the HKHS to provide rental units at low and affordable rent to low-income families. As for SSFs, the Government had been charging land premium at one-half of FMV for HKHS' SSF projects since 1980s. The then Government considered that the relevant concessionary premium was adequate in enabling the HKHS to break even while selling SSFs at below market value. The first site granted for HKHS' development of SSF project at such concessionary premium is Clague Garden Estate in Tsuen Wan.

(2), (5) and (6) The Government announced on June 29, 2018 the new pricing

mechanism for the Home Ownership Scheme (HOS) under the Hong Kong Housing Authority (HA). Under the relevant mechanism, the selling price of HOS units is determined based on the affordability test which uses the median monthly household income of non-owner occupier households as the reference point, and ensures that at least 75 per cent of units are affordable. Since the HKHS generally makes reference to the discount rate provided in the preceding HOS sale exercise in formulating pricing for its SSFs, under the new HOS pricing mechanism, the HKHS may need to offer a correspondingly higher discount rate for its SSF. This may lower HKHS' income and affect its financial sustainability.

Against the above background, the Government reviewed the land premium arrangements for HKHS' subsidised housing projects and revised the arrangements in January 2019 as follows: from the previous one-third of FMV to a nominal premium at \$1,000 for HKHS' rental estates; and from the previous one-half of FMV to one-third of FMV for domestic portion of HKHS' SSF projects, while maintaining the existing arrangement of charging FMV for non-domestic portion of the SSF projects. The Government believes that the revised land premium arrangements would help mitigate the financial impact of its new HOS pricing mechanism on the HKHS, and strengthen HKHS' long-term financial sustainability. This will enable the HKHS to continue to provide rental units and SSFs at affordable rentals and prices to address housing needs of the public.

The HA and the HKHS assumes different yet complimentary roles in providing public housing. The HA is the major organisation responsible for developing public rental housing and SSFs, whereas the HKHS plays the role of "housing laboratory" apart from providing rental units and SSFs. The two organisations also differ in structure and mode of operation. Therefore, the Government does not consider it necessary to adopt entirely the same land premium arrangement for subsidised housing projects of the two organisations.

As mentioned above, under the existing mechanism, the discount rate and selling price of SSFs are determined based on the affordability of the applicants, and are not linked to the land premium. The selling price of respective SSF projects and units are affected by various factors, including the location of the project, orientation and views of the flat, fittings and facilities provided in the flat, etc. Hence, direct comparison of the selling prices of different projects may not be appropriate.

(4) The land premium payable by the HKHS for respective SSF project is calculated by the Government based on the market value of the land at the time of the grant to the HKHS.

(7) Information on subsidised housing projects completed by the HKHS in the past five financial years and estimated to be completed in the coming three financial years are set out at Annex.

(8) According to information provided by the Lands Department, under the existing mechanism, the Government would grant land by private treaty (PTG) at nominal, concessionary or full market premium for specific uses in justified circumstances, in accordance with the relevant policies in meeting

the economic, social and community needs of Hong Kong. All PTGs for specified uses are subject to consideration by relevant departments from technical perspectives, scrutiny by relevant policy bureaux for giving policy support on a case-by-case basis, and approval by the Chief Executive-in-Council (CE-in-C) or its delegated authority. The Government would charge full market premium unless approval by the CE-in-C was obtained for granting concessionary or nominal premium with the support by the relevant policy bureau. This arrangement also applies to the portion used for social welfare or other community facilities under sites granted to the HKHS for subsidised housing development. In general, if support is given by the relevant policy bureau, the portion used for social welfare or other community facilities may be granted at nominal premium.