



# Hong Kong Policy Address 2011 / 2012

For the second consecutive year, the Government placed a strong emphasis on its land and housing policy for 2011/2012. Of the 210-paragraph speech, more than 40 paragraphs highlighted key initiatives in providing sufficient land supply, the introduction of the new Home Ownership Scheme (HOS) and the redevelopment of old districts. The following are highlights of the key initiatives on the land and housing policy.

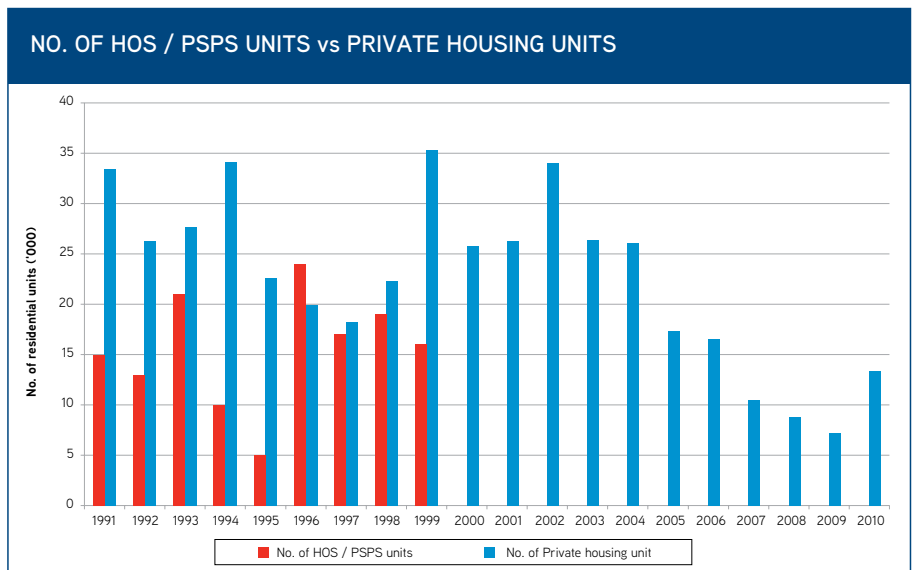
## 1. A Scaled-Down New HOS

In response to general community requests, the Government has put forward a new Home Ownership Scheme (HOS) in its policy address on 12th October 2011. Target families for this new scheme will be those with household income which exceeded the limit criteria for public rental housing (PRH) eligibility, but at the same time may not be able to afford owning their own home. The details of the new HOS scheme are:

- To target families with household income between HK\$20,000 and HK\$30,000 per month
- Size of subsidised HOS flats will range from 400 sq ft to 500 sq ft saleable area
- Subsidised price will be in the approximate range of HK\$1.5 - 2.0 million
- Targeted production rate will be 2,500 to 6,500 flats per annum but the average will be a maximum of 5,000 flats per annum
- First batch of new HOS flats are scheduled for pre-sale in 2014 or 2015
- Supply will be more than 17,000 HOS flats over four years from 2016/2017
- Targeted sites will be located in Sha Tin, Tsuen Wan and Yuen Long

### **Colliers' View:**

*It is our view that the new HOS is essentially a scaled-down version of the previous with the targeted annual production rate largely reduced. With reference to the old HOS, the statistics provided by Hong Kong Housing Authority indicated that the annual production rate between 1991 and 2000 is averaged at 15,500 HOS flats per annum. It represented 58% of the completion rate (i.e. 26,600 units per annum) of private units during the same period. Although the completion rate in the private sector continued to reduce after a production peak (i.e. 34,035 units) seen in 2002, the average in the past 20 years was 22,000 units per annum. Assuming the same level of production in the next 10 years, the 5,000 new HOS flats will represent about 23% of the private sector – a level significantly below that of the old HOS.*



Source: Rating and Valuation Department, HKSAR Government; Hong Kong Housing Authority

## 2. More Flexibilities to the “My Home Purchase Plan”

The Government, in collaboration with the Hong Kong Housing Society (HKHS), will continue to implement the My Home Purchase Plan (MHPP), to provide “no frills” small and medium rental flats to families earning up to HK\$40,000 but do not have enough savings for a down payment. Apart from the proposed “rent-and-buy” mode, the Government will offer a “buy-or-rent” option which allows participants to buy their MHPP flats directly at market price without going through a rental period.

Under the MHPP, the initial market selling price will serve as the ceiling price of the said flat. A participant choosing the “rent-and-buy” option will be guaranteed the “ceiling price” regardless of any rise in property prices within two years after termination of tenancy. This will protect participants from having their plans for home ownership disrupted by soaring property prices, and also enabling them to set more specific saving targets. In event the prices fall, the option to purchase the MHPP flats at the prevailing market price will be available.

### Colliers’ View:

*It is our view that the targeted families with household income up to HK\$40,000 actually falls within the coverage by the private sector market. However, the number of MHPP to be available is relatively small. The first batch of 1,000 units will be available for pre-letting in 2012.*



SELECTED PRIVATE RESIDENTIAL DEVELOPMENTS						* MONTHLY MORTGAGE REPAYMENT TO INCOME RATIO		
Classification	Name of Development	Price (HK\$ million)	Flat size (sq ft) Gross	Unit Price (HK\$ per sq ft)	Monthly Installments	45%	40%	30%
<b>Yuen Long</b>								
High-tier	Yoho Town	\$2.80	525	\$5,333	<b>\$10,386</b>	Affordable	Affordable	No
Mid-tier	Sun Yuen Long Centre	\$2.95	576	\$5,122	<b>\$10,942</b>	Affordable	Affordable	No
Low-tier	Yee Fung Garden	\$2.13	478	\$4,456	<b>\$7,901</b>	Affordable	Affordable	Affordable
<b>Shatin</b>								
High-tier	Peak One	\$3.70	536	\$6,903	<b>\$13,724</b>	No	No	No
Mid-tier	Prima Villa	\$3.40	562	\$6,050	<b>\$12,612</b>	Affordable	No	No
Low-tier	City One Shatin	\$2.20	410	\$5,366	<b>\$8,161</b>	Affordable	Affordable	Affordable
<b>Tseung Kwan O</b>								
High-tier	Grandiose	\$3.68	576	\$6,389	<b>\$14,800</b>	No	No	No
Mid-tier	Park Central	\$3.25	546	\$5,952	<b>\$12,055</b>	Affordable	No	No
Low-tier	Metro City	\$3.02	516	\$5,853	<b>\$11,202</b>	Affordable	Affordable	No

\* Note For monthly mortgage repayment to income (HK\$30,000) ratio at 45%, maximum budget is HK\$13,500 per month  
 For monthly mortgage repayment to income ratio (HK\$30,000) at 40%, maximum budget is HK\$12,500 per month  
 For monthly mortgage repayment to income ratio (HK\$30,000) at 30%, maximum budget is HK\$9,000 per month

### 3. Will the New HOS Overlap with the Private Sector?

In addition to the scale of production, the key point is whether the new HOS will take away buyers from the private sector.

#### Colliers' View:

*Our view to this is both a yes and no. Based on the target families with household income between HK\$20,000 and HK\$30,000, families on the upper end of this range are actually able to purchase their own units in the private sector.*

*The following are calculations based on current market prices in popular mass housing developments in Yuen Long, Shatin and Tseung Kwan O. With the monthly repayment to income ratio at 45%, targeted families with household income of HK\$30,000 per month actually have many purchase choices with the exception of a few individual high-priced developments.*

*However, families earning HK\$20,000 per month will experience difficulty in acquiring units in the private sector based on the same set of assumptions. As such, the question here is the level of household income limit for eligible buyers. It would appear that a portion of potential buyers, particularly those with household income close to the upper limit, will be able to afford the units in the private sector. However, with discounted flat prices, eligible buyers are anticipated to go for the units in the new HOS. Another point to note is the loan-to-value (LTV) ratio. For most first-time buyers, the key hurdle for buying their flats is usually down payment. Although there is no further detail on LTV for the future HOS flats, eligible buyers are anticipated to look at the new HOS flats more seriously if there is better LTV arrangement.*



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#### 4. Building Up Land Reserve Through Expanded Sources

Besides the new HOS initiatives, the Government is determined to build up land reserve in order to provide sufficient land to meet the change of demand in the marketplace. The following - largely land conversion and reclamation - are the measures identified by the Government to acquire additional land resources.

- Conversion of industrial land - To release about 60 hectares of industrial land for non-industrial use, half of which will be made available for housing
- Conversion of agricultural land - To explore the possibility of converting some 150 hectares of agricultural land in North District and Yuen Long currently used mainly for industrial purposes or temporary storage, or which is deserted into housing land
- Reclamation - To explore the option of reclamation on an appropriate scale outside Victoria Harbour
- Rock caverns - To actively explore the use of rock caverns to re-provision existing public facilities and release such sites for housing and other uses. Tentative projects include the relocation of the Sha Tin Sewage Treatment Works and Mount Davis and Kennedy Town Fresh Water Service Reservoirs
- Use of green belt - To look into the use of green belt areas in the New Territories that are de-vegetated, deserted or formed; thus no longer performing their original functions and convert them into housing sites. The first phase will cover an area of 50 hectares, mainly consisting of government land
- Exploring the use of under-utilised "GIC" sites - To examine "Government, Institution or Community" sites to avoid the under-utilisation of sites which were long reserved but without specific development plans, and study ways to reduce the restrictions posed by government utilities to the development of adjacent areas

#### **Colliers' View:**

*Although some of the measures are not going to see immediate results, it is encouraging to see that the Government, as the key supplier of land, make an effort to ease the supply bottle-neck and to meet long-term demand in the market.*



The Government is actively pursuing its initiative to transform Kowloon East into a pleasant business district with green features and pedestrian promenades as well as a wide range of cultural facilities

## 5. Trading Up the Housing Ladder

For most market players, the common query is whether the new HOS will disrupt the existing ladder trade up in the whole residential property market.

### **Colliers' View:**

*Reading through the details on the newly announced resale restrictions, it is encouraging to see that the Government has taken this into consideration. The key change on resale restrictions is on the payment of land premium. The prime purpose is to enliven the HOS secondary market, thus facilitating HOS flat owners to turn to the private sector after five years.*

*Within the first five years from the date of purchase, owners can only sell their flats to green form applicants or the Housing Authority. This being the case, the HOS market is essentially separated from the private sector, thus creating no significant impact to the private sector.*

*After five years, owners can then sell their flats on the HOS open market after paying a premium to the Housing Authority. Compared to the old HOS, the new scheme adopts a different arrangement in assessing the premium to be paid by HOS owners. In order to facilitate the volume of HOS secondary market, the Government will take the subsidised portion of a unit's purchase price as a loan to the owner. Unlike the previous scheme, the amount will not be adjusted even if the market value of the unit increases in the future. In other words, the only thing that the owner has to do is to repay this loan to the Government before selling the unit on the HOS open market. Given the enhanced process of resale, owners are provided with additional mobility to trade their units upward along the property ladder.*

## 6. Urban Renewal

The measures on the revitalisation of industrial buildings through redevelopment and wholesale conversion has been in place since April 2010, and will last for three years. In light of the mid-term review completed in September 2011, the Government announced an extension of these measures for a further three years.

### **Colliers' View:**

*In general, the measures are designed to foster the continued conversion of existing industrial buildings into other uses such as office, hotel/serviced apartment and retail. Due to the support of new infrastructure development (e.g. MTR Sha Tin to Central Link) and the relocation of government offices, Kowloon East is anticipated to be the focus over the next decade. In terms of town planning, the Government is actively pursuing its initiative to transform Kowloon East into a pleasant business district with green features and pedestrian promenades as well as a wide range of cultural facilities.*



# Summary

All in all, the latest initiatives announced by the Chief Executive on land and housing policy are largely perceived to be a result of direct responses to community requests. One of the most obvious ones is the resumption of HOS which was halted since 2002. The key reasons cited by the Government was the extreme volatility of house prices following the aftermath of the Asian Financial Crisis in 1998 and the dot-com collapse of 2000-2001 which led to drastic fall of house prices and the problem of negative equity affecting a massive number of local families. These are all acceptable responses as the market does require the Government to step in times of extreme imbalance between demand and supply. From past lessons learned, the Government is now aware that the rise in demand can increase sharply over a short period of time. In our opinion, the local residential market will likely continue to experience sharp and quick rises in demand when the next cyclical upturn comes in view. However, with the gradual build-up of land reserve and the timely supply of development sites, the market should see a more balanced supply and demand situation.

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