

THE HONG KONG HOUSING AUTHORITY**Memorandum for the Subsidised Housing Committee****Proposed Uses of Surplus Home Ownership Scheme Flats****PURPOSE**

This paper informs Members of the latest position in relation to the disposal of surplus Home Ownership Scheme (HOS) flats and seeks Members' endorsement on the way forward.

BACKGROUND

2. To address the increasing overlapping between the private property market and the subsidised housing market, and the imbalance between demand and supply of residential flats in the market, in response to the Government's request, the Housing Authority (HA) decided to cease the sale of HOS flats in November 2002. Excluding Private Sector Participation Scheme (PSPS) projects which require separate handling and some 10 000 returned and unsold HOS flats in existing HOS courts to be sold to Green Form applicants, some 12 300 HOS flats in eight developments which have never been sold need to be disposed of through market-friendly means. A brainstorming session among HA and Committee Members was held on 23 January 2003 to consider possible arrangements to dispose of the surplus HOS flats and the principles that should be followed. Many Members were in favour of a multi-pronged approach. At its meeting on 6 March 2003, the Strategic Planning Committee (SPC) considered a number of possible disposal arrangements and agreed that the following options should be further pursued -

- (a) sale to the Hong Kong Housing Society for re-housing purposes;
- (b) use as Government staff quarters;

- (c) conversion to guesthouses; and
- (d) conversion to public rental housing.

3. The Housing Department has since commenced discussions with the relevant parties to explore the practicability of these options. Paragraphs 4 to 8 report the latest progress.

PROGRESS TO DATE

(a) Sale to Housing Society

4. The Housing Society previously expressed an interest in the 1 630 flats (comprising 1 216 surplus HOS flats and 414 public rental flats on an integrated lease) at Tung Tao Court at Aldrich Bay. However, agreement could not be reached over the major terms of the proposed sale. The price offered by the Housing Society, which was arrived at on the basis of the estimated market value having regard to the alienation restrictions that the Government would impose, fell far short of our estimated selling price calculated on the basis of development costs plus an estimated land premium for lease modification. Some Members pointed out at the brainstorming session on 23 January 2003 that if the flats were to be sold to private developers they should be sold at market prices and no discount should be given. Given the wide gap in the approach to flat pricing, further discussion on this option appears to be inconsequential.

(b) Use as Government staff quarters

5. We have since March 2003 been discussing with the relevant Government bureaux and departments on the option to use some of the surplus HOS flats for reprovisioning the existing aged or substandard staff quarters for the disciplined services. A total of 4 304 surplus HOS flats in four developments have subsequently been identified for this purpose. We are now at an advanced stage of discussion with the Government on the terms of sale such as pricing and payment arrangements.

(c) Conversion to guesthouses

6. We invited Expression of Interest in the proposal to convert 744 surplus HOS flats in two developments into guesthouses for Mainland visitors in October 2003. A total of eight proposals were received, with the majority coming from small operators without the requisite experience and financial capability. Most of them did not take into account the land value of the flats. Judging from the financial information which have been put forward, most of the proposals are not commercially viable and cannot be pursued further.

7. Notwithstanding, in one of the proposals, a developer based in the Mainland has indicated interest in purchasing a large number of surplus HOS flats for conversion into time-share holiday homes. According to this initial proposal, the plan is to acquire the flats and then sell to Mainland residents the right to occupy specified flats as holiday homes during specified time slots within each calendar year for a number of years that follow. The proposal entails a number of major issues, e.g. planning and land use considerations, likely local reactions, views of the hotel industry, licensing requirement and enforcement implications. We are examining these issues in detail in consultation with the relevant parties, having regard to the vociferous concerns recently expressed by the hotel industry.

(d) Conversion to public rental housing

8. With the approval of the SPC on 6 March 2003 (vide Paper No. SPC 15/2003), the 2 100 flats in Hiu Lam Court in Sau Mau Ping have been transferred to public rental housing. Allocation of flats in Hiu Lam Court started in June 2003 and at present 96% of the flats there have been let.

WAY FORWARD

9. As reported in paragraph 4 above, the option to sell Tung Tao Court to the Housing Society appears to be inconsequential and should be dropped. Instead, we should focus on the other three options, i.e. use as Government staff quarters, conversion to guesthouse and transfer to public rental housing. We propose to apportion the 10 264 surplus HOS flats among these three possible beneficial uses, having regard to the size, location and standard of provisioning of these flats. Our proposals are set out in paragraphs 10 to 13.

Conversion to Government staff quarters

10. Discussion with the Government on this proposal is now at a final stage. The Government has selected 4 304 flats in 15 building blocks (comprising 13 Concord and two New Cruciform blocks), together with 538 ancillary carparking spaces, at Ko Cheung Court, Yau Mei Court, Kwai Chung Phase 7 and Kwai Yung Court for reprovisioning the existing staff quarters. These flats are comparable to the existing quarters in terms of size and standard of provisions. We propose to price these flats and the ancillary carparking spaces on a cost recovery basis. The development cost of these flats and ancillary carparking spaces, comprising the actual expenses incurred by HA for flat construction and project supervision, is about \$2,750M. As the Government is striving to restore its fiscal balance in the Operating and Consolidated Account by 2008/09, an upfront payment of \$2,750M to the HA will have immediate serious impact on the Government's budget. We therefore propose for Members' consideration that the payment period should be spread over 10 years, interest-free, according to a fixed payment schedule as set out at ----- **Annex A**, which has taken into account the HA's cashflow position from now till 2007/08 and the Government's fiscal position up to 2008/09. The proposed sale is subject to funding approval from the Finance Committee of the Legislative Council.

Conversion to guesthouses

11. As regards the proposed sale for time-share holiday homes or guesthouse use, given that the flats identified for this purpose should be attractive to tourists and should be able to fetch the prevailing market price, we propose to earmark 3 040 flats in relatively high-value and free-standing locations, comprising 1 216 flats in Tung Tao Court at Aldrich Bay, 1 480 in Yau Mei Court at Yau Tong and 344 in King Hin Court at Ngau Chi Wan, for further consideration of this option. As "time-sharing" is a relatively new concept in Hong Kong and in the absence of legislation to define or regulate "time-share" operations, we need to examine the proposal from both practical and legal perspectives with relevant policy bureaux and Government departments. Issues to be considered include lease control, town planning implications, residents' reactions as well as impact on the hotel industry. If it is decided that this proposal should go ahead, the flats will be sold by way of open tender to ensure that they are disposed of at reasonable market price.

Conversion to public rental housing

12. At the meeting of the Legislative Council Panel on Housing on 3 November 2003, legislators passed a motion urging the Government to consider as soon as possible converting surplus HOS flats to public rental housing, with the exception of the flats in courts under the PSPS and in HOS courts to be used as Government staff quarters and guesthouses. At the plenary meeting of the HA on 15 January 2004, we proposed to transfer around 3 000 surplus HOS flats to the rental stock. We have since been considering a suitable selection of flats for this purpose. Taking into account flat size and value of the sites, and to ensure a good mix of locations, we propose to transfer a total of 2 920 surplus HOS flats to public rental housing, comprising 1 800 flats in Ko Cheung Court, 400 in Yau Mei Court and 720 in Lam Tin Phase 6. These flats are smaller in size than those earmarked for conversion to Government staff quarters and guesthouse uses. All of them are adjacent to existing public rental housing estates. Subject to Members' agreement, allocation of these flats can commence as soon as supporting estate management services are in place.

13. Proposed designation of surplus HOS flats for different possible uses outlined above is summarised at [Annex B](#).

FINANCIAL IMPLICATIONS

14. The HA incurs a monthly expenditure of around \$1.5M to provide security services and basic maintenance for the 10 000 odd surplus HOS flats. Their expeditious disposal will relieve the HA of such expenditure. The proposed sale of 4 304 flats with ancillary carparking spaces to the Government will recover the development costs of these properties at about \$2,750M. The sale proceeds, to be receivable in 10 annual instalments, will help to alleviate the HA's cashflow situation in the years ahead. As regards proposed conversion to guesthouse use, if implemented this option should be able to generate some income to the HA but the actual amount will depend on the sale price and our financial arrangement with the Government over this initiative.

PUBLIC REACTION

15. The public will welcome the proposals to make expeditious use of the surplus HOS flats. The proposed conversion of some surplus flats to Government staff quarters and public rental housing will find favour with the public and legislators. However, the proposed use of the flats as time-share guesthouses may arouse adverse reactions from the hotel industry as well as local residents. We will continue to liaise with the industry about their concerns.

DISCUSSION

16. At the meeting to be held on 19 May 2004, Members will be invited to approve -

- (a) sale of 4 304 surplus HOS flats and 538 ancillary carparking spaces to the Government for use as staff quarters at their development cost of around \$2,750M, to be payable in 10 annual instalments as shown at **Annex A** ([paragraph 10](#));
- (b) continuing to explore the feasibility of converting 3 040 flats to guesthouse use ([paragraph 11](#)); and
- (c) conversion of 2 920 flats to public rental housing ([paragraph 12](#)).

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c.c. Members of the Finance Committee
Members of the Strategic Planning Committee

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(Strategy Division)

Date : 19 May 2004

Proposed Payment Schedule for the Sale Proceeds of \$2,750M

Instalment	Payment Date (on 1 October)	Amount of Payment (\$M)
1 st	2004	150
2 nd	2005	150
3 rd	2006	150
4 th	2007	150
5 th	2008	150
6 th	2009	400
7 th	2010	400
8 th	2011	400
9 th	2012	400
10 th	2013	400
Total Payment :		2,750

Proposed Uses of Surplus HOS Flats

Surplus HOS Courts	Number of Flats	Proposed Uses		
		Government Quarters	Guesthouses	Public Rental Housing
Ko Cheung Court (Yau Tong)	2 800	1 000		1 800
Yau Mei Court (Yau Tong)	3 872	1 992	1 480	400
Lam Tin Phase 6	720			720
Tung Tao Court (Aldrich Bay)	1 216		1 216	
Kwai Chung Phase 7	800	800		
Kwai Yung Court (Kwai Chung)	512	512		
King Hin Court (Ngau Chi Wan)	344		344	
Total	10 264	4 304	3 040	2 920