

8 July 2011

Ms Eva Cheng, GBS, JP  
Secretary for Transport and Housing  
Transport and Housing Bureau  
16/F, Murray Building  
Garden Road  
Central  
Hong Kong

Dear Eva,

**Home Ownership Scheme - Improvement rather than Expansion**

The Chamber notes recent public concerns with the general lack of supply of “Affordable Housing” that has resulted in soaring flat prices in all sectors and a groundswell of support for the revival of the Home Ownership Scheme (HOS) that has been suspended since 2003. Although we understand the factors behind calls to restart the production of HOS, we do not think it appropriate or fair for government to subsidize homeownership. We also believe HOS is a wrong policy instrument for Hong Kong’s housing problem, which is caused by insufficient supply at all levels of the market. However, increased land supply (and HOS resumption, for that matter) would likely take 3-5 years to have any meaningful impact. Likewise, government’s recent initiative “My Home Purchase Plan” to rent and buy may eventually be a useful contribution but it too will take years to have any discernable impact.

We feel that there is some maneuverability with the existing stock of HOS so that immediate liquidity can be introduced to an otherwise stagnant secondary market. Prior to doing so, there is the need to determine where bottlenecks exist. We note that HOS alienation restrictions (sale to Public Rental Housing (PRH) tenants without paying premium subject to restriction) have resulted in very low levels of conversion to private sector ownership and hardly any in the so-called Secondary HOS market. This is because the premium process represents a major transaction hurdle; Existing HOS owners can rarely afford to pay the premium and therefore there is little incentive to move up the ladder. The result is that the 200,000 or so units sold have ceased to function as a conduit for sandwich class buyers to transit from the PRH to the Private Sector. The public investment is therefore no longer performing its function.

There is therefore the need to rethink the process that would have the desired effect of incentivizing and enabling HOS owners with the means to do so to move out to the private sector and to allow these units to be reallocated to new qualified applicants so that the investment in HOS would continue to perform its original function on an ongoing basis.

One possible solution would be to share the uplift in market values between the HOS owner and the Government by way of a formula. If Private Sector values have, say, doubled since original purchase there will also, by extension, be a doubling in the HOS price, which is the current equity accruable to the HOS owner assuming mortgage has been paid off. This value is then deducted from the current private market price and half the difference is then shared with the owner by adding this difference to the current equity value. We are mindful of criticisms that may arise from such an approach because HOS owners would be seen as given an exclusive benefit that other buyers cannot enjoy. However, we believe this is worthy of consideration because those that can nearly afford to be in the private sector will receive a critical boost that will allow them to make such a transition while those that are sandwiched are given the opportunity to move on from PRH. Another positive effect would be shorter wait times for PRH and HOS. We suggest that funding for this exercise come from the Land Premium although other government funds could be tapped to serve a similar purpose.

There will, admittedly, be finer details that would have to be given further thought but we hope our suggestion will help address the pent-up demand for affordable housing without necessarily resorting to market distortive policies.

We are happy to further discuss our proposal with you and would like to invite you and/or Mr Duncan Pescod to exchange views with members on the subject at a mutually convenient date and time.

Yours sincerely,

Alex Fong  
CEO

cc: Mr Duncan Pescod, Permanent Secretary for Transport and Housing (Housing)/Director of Housing