

**Memorandum for the Subsidised Housing Committee of
the Hong Kong Housing Authority**

Revitalising the Home Ownership Scheme Secondary Market

PURPOSE

This paper sets out possible measures for revitalising the Home Ownership Scheme (HOS) Secondary Market for Members' discussion.

BACKGROUND

The Home Ownership Scheme

2. The Government repositioned its subsidised housing policy and ceased the production and sale of HOS flats in November 2002. Under the repositioned housing policy, the Government would focus resources on the provision of subsidised public rental housing (PRH) and minimise intervention in the market. Home ownership should be a matter of personal choice and affordability. Since 2007, the Housing Authority (HA) has put up some 16 700 surplus HOS flats for sale by phases and conducted the sale of surplus HOS flats in five phases in 2007, 2008 and 2009. Up to the end of March 2010, the HA sold a total of some 12 600 flats. The HA also decided on 26 March 2010 that the remaining surplus HOS flats will be put up for sale from June 2010 the earliest.

3. At present, there are some 320 000 HOS flats. About 64 700 flats are tradable in the open market, and around 255 400 (the premium of which has not yet been paid) are tradable under the Secondary Market Scheme (SMS).

4. Since 70% of these HOS flats are located in urban and extended urban areas, they should be attractive to prospective buyers. The recent transaction prices of the majority of such flats are around or below \$2 million. However, considering the large amount of tradable stock, the number of transactions is small, averaged at some 6 600 in the open market and some 1 800 in the Secondary Market per year respectively from 2005 to 2009. Facilitating the turnover of these flats may cater for the low-end property market.

Operation of the SMS Market

5. The SMS was introduced in 1997 such that the subsidised sale flats owners (i.e. owners of HOS flats and later including owners of the Tenants Purchase Scheme (TPS) flats) are allowed to sell their flats to existing or prospective PRH tenants without payment of premium. The prime objectives of the SMS are to encourage turnover of HOS and TPS flats to promote the mobility of PRH tenants to home ownership and at the same time to recover PRH units for reallocation. Amendments to the Schedule to the Housing Ordinance (the Schedule) were made to cater for the operation of the SMS, with further amendments in 1999 to the effect that HOS/TPS flats can be traded under the SMS after two years from the date of first assignment (previously three years).

THE PROPOSALS

6. We have explored possible means to revitalise the HOS Secondary Market. In formulating the proposals, we have taken into consideration the following parameters –

- (a) the proposals should help those who are in genuine need of purchasing and can afford in the long run their own homes;
- (b) the proposals should work towards the effective match of the supply and demand in the HOS market; and
- (c) the financial implications of the proposals and whether they would increase the HA's financial liabilities and risks.

7. We have set out three proposals for Members' discussion –
- (i) extending the HA's mortgage guarantee period;
 - (ii) introducing a premium loan guarantee scheme (by the Hong Kong Mortgage Corporation); and
 - (iii) streamlining the related administrative arrangements and enhancing publicity.

----- The details of each proposal are at Annex A to Annex C.

8. To facilitate Members' discussion, facts and statistics concerning
----- HOS (and TPS) are set out at the fact sheet at Annex D.

HOUSING AUTHORITY AND FINANCE COMMITTEE MEMBERS' INFORMATION

9. This paper is copied to HA and Finance Committee Members concurrently for information.

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File Ref. : HD(CR)25/1/177
(Strategy Division)

Date of Issue : 11 May 2010

Extending the Mortgage Guarantee Period

1. Background

- 1.1 In order to assist purchasers of HOS flats in obtaining favourable mortgage finance, the HA has been providing mortgage default guarantee to participating financial institutions for up to 25 years counting from the date of the first assignment of individual flats for the shortfall in mortgage default cases.
- 1.2 For the HOS primary market, purchasers can borrow up to 90% (for White Form applicants) or 95% (for Green Form applicants) of the purchase price of the flats. For SMS, purchasers can borrow up to 95% of (i) the Assessed Value (market value minus premium) or (ii) the purchase price of the property in the SMS, whichever is the lower. The mortgage default guarantee given by the HA is tied to the legal charge signed between the participating financial institutions and the flat owner. In other words, once the HOS owners have sold their flats, the mortgage default guarantee will elapse.

2. Present Situation

- 2.1 There has been an impression that some of the participating financial institutions could only grant a mortgage term co-terminating with the HA's guarantee period, i.e. 25 years from the date of the first assignment of individual HOS flats. However, this is not the case according to our understanding from the participating financial institutions. The practice is for them to take into account all relevant factors including the income, financial position and track record of the applicants and the condition of the property etc., in vetting mortgage applications. The HA's mortgage default guarantee period is only one of the factors of reference.
- 2.2 Notwithstanding the above and in order to facilitate purchase of HOS flats, we have issued letters to participating financial institutions reminding them that it is the intention of the HA to assist the HOS flat purchasers to obtain favourable mortgage term and that it is not the HA's requirement to confine the mortgage term to co-terminate with the guarantee period. The participating financial institutions are encouraged to consider all relevant factors other than the guarantee by the HA in deciding on the tenor of the mortgage term for the HOS flat purchasers, as in the case when they consider mortgages other than those for HOS flats.
- 2.3 Under Phase 5 sale of surplus HOS flats exercise, around 73% of flats are returned flats with the residual mortgage default guarantee period ranging from 10 to 16 years. Purchasers of these flats do not appear to have problems in obtaining 25-year mortgage from participating financial institutions.

3. The Proposal

- 3.1 There have been suggestions that a further extension of the mortgage default guarantee period beyond 25 years, say 30 years, by the HA could help prospective purchasers in negotiating with the participating financial institutions for repayment of their liability over a longer mortgage period.
- 3.2 Besides, it is noted that over 30% of existing HOS flats as of today are already aged 20 years or more. In five years' time, this percentage will substantially rise to nearly 60%. As of today, the residual mortgage default guarantee period will remain some 10 years or so. We may wish to consider whether there is a case to consider an extension of the guarantee period of say 5 more years since the first assignment of the flat.

4. Implications of the Proposal

- 4.1 The financial implications of the proposal are two-fold: on the HA's **financial exposure**, and the HA's **potential default risk**. The legal implications of the proposal have also been looked into.

The HA's Financial Exposure

- 4.2 As at end of March 2009, the total outstanding loan amount subject to HA's mortgage default guarantee in respect of the flats sold under HOS primary market (including surplus HOS flats) and SMS is \$42,793M and \$6,784M respectively, involving a total of 102,082 mortgage loans.
- 4.3 Extension of the mortgage guarantee period, say from 25 years to 30 years would expose the HA to greater financial risk. Based on the average sale price and the average number of transactions of HOS flats under the Secondary Market Scheme (SMS) in the 2009, if the prices for SMS HOS flats will remain as of in 2009 and the transaction volume for SMSHOS flats will increase by 30% as a result of the incentive arising from the extension of guarantee, then for the mortgage loans granted in one year, our rough calculation is that HA's financial exposure may increase from \$84M to \$159M (by about 89%) as at the end of the first year -

The HA's Financial Exposure under the Proposal

Assumption: transaction prices remain as of in 2009 and flats are already 10 years from date of first assignment		
	Financial exposure at end of first year	
	Existing (25 years)	Proposed extension (30 years)
Same transaction volume (around 1 800 cases per year)	\$84M	\$122M
Transaction volume increased by 30%(i.e. around 2 350 per year)	\$106M	\$159M

- 4.4 The financial exposure to the HA will grow higher if the prices of the flats fall, especially in the first few years of the guarantee period. To illustrate using the same model, if the prices fall by 10% at end of the first year, the financial exposure for the mortgage loans granted in one year will be \$454M.
- 4.5 The financial exposure to the HA would normally decrease in the later years of the guarantee period (with increasing number of mortgage repayments from owners over the years). Nonetheless, it should be mindful that the HA is still vulnerable to financial risks throughout the guarantee period, having regard to unpredictable downturn in property market and economic situations.

The HA's Potential Default Risk

- 4.6 As at end March 2009, the HA has paid around \$880M to meet the shortfall in repayment of mortgage loans involving 3,596 mortgage default cases for both the HOS primary market and SMS–
- For the HOS primary market, we had incurred \$648M on 2 779 cases of default claims (i.e. an average of \$233K per case). This represents a cumulative default rate of about 0.96% in terms of the total number of transactions in the primary market from 1984/85 to 2008/09.
 - For the SMS, we had incurred \$232M on 817 cases of default claims (i.e. an average of \$284K per case). This represents a cumulative default rate of about 3.1% in terms of total number of transactions in the Secondary Market for the past 12 years.
- 4.7 In respect of default, assuming a default rate of 3.1% and the average default guarantee payment of \$284,000 per case based on the past 12 years' statistics (i.e. existing rate and amount for SMS), if the annual transaction volume increased by 30% as a result of extension, the possible mortgage default guarantee payment by the HA for new mortgage loan granted in each year may increase from around \$16M to \$21M.
- 4.8 Nevertheless, if the prices of HOS continue to rise, the amount of mortgage loan subject to HA's mortgage default guarantee per case would increase.

Legal Implications

- 4.9 It is feasible for the HA to agree with the participating financial institutions to have a new deed providing for say 30 years of guarantee from the date of first assignment of relevant HOS flats. The new deed is to be used from a certain future date, as appropriate, and current mortgagors covered by the 25 year Deed will not be affected by the new deed.

5. Considerations

Pros

5.1 Possible benefits of the proposal:

- (a) With the aging of HOS flats, an extension of the mortgage guarantee will facilitate the participating financial institutions' consideration of providing mortgage for the relatively older HOS flats.
- (b) The proposed extension will also facilitate the financing arrangements of some prospective purchasers of HOS flats who otherwise may not be able to obtain more favourable mortgage term, and in turn encourage the turnover of flats in the HOS market.

Cons

5.2 Possible disadvantages of the proposal:

- (a) Some are concerned that the extension of mortgage guarantee period might provide an "incentive" for the participating financial institutions to take "more risks" with the HA to foot the bill.
- (b) The accessibility of mortgage loans generally coincides with the condition of the real estate market at large. Loans are more easily accessible when the real estate market is vibrant, and vice versa. In addition, other economic and social factors such as economic trend, employment rate, family arrangement, etc., will all affect the households' decision of home purchase. As such, the effectiveness of proposed extension may be limited.
- (c) The extension of mortgage guarantee period would expose the HA to greater financial exposure and potential default risk.

Premium Loan Guarantee Scheme by the Hong Kong Mortgage Corporation

1. Background

- 1.1 For Home Ownership Scheme (HOS) flats sold since Phase 3B in May 1982, owners must pay the premium for lifting of restriction before they can sell, let, or assign the flats in the open market.
- 1.2 Premium of a flat is computed as the assessed current market price of the flat multiplied by the discount rate. For example, for a flat with the current market price of \$2 000 000 and the discount rate of 40%, the premium payment would be \$800 000, even if its original purchase price was, say, \$1 000 000. Around two-thirds (64%) of the existing HOS flats carry discount rates over 30%. Some critics consider that the huge sum payable to the HA hinders the turnover of HOS flats as owners may not be willing or able to afford settling the premium in one go.

2. Previous Proposals

- 2.1 There have been suggestions that the Housing Authority (HA) should introduce financing arrangements for HOS owners to settle their payment of premium by installments. Such suggestions were raised at the Housing Ownership Committee (HOC) brainstorming session in June 2002, as a measure to improve the HA's source of income, as well as to address illegal letting of HOS flats where premium had not been paid. It was revisited at the Subsidised Housing Committee (SHC) at the meeting in May 2005 as a possible incentive for HOS owners to settle their premium for subsequent selling or renting out their HOS flats.
- 2.2 The suggestion was discussed along the line of loans provided by the HA on interest-free or low interest basis, or loans provided by banks/financial institutions with interest paid and/or loans further guaranteed by the HA. Members' views were highly divided as to whether the options should be supported, as summarised below –
 - (a) **Use of public funds** – if the HA was involved in providing loans to HOS owners, irrespective of how interest is determined or whether it is payable, it may be criticized as tantamount to performing the role of banks/financial institutions with the use of public funds. Quite a number of members considered that it was neither justified nor financially viable for the HA to be involved in use of public funds to facilitate premium payment by HOS owners.

- (b) **Financial exposure** – if the HA had to provide further default guarantee for HOS owners to obtain loans from banks, the HA would incur substantial contingent liability in addition to the interest foregone for deferring receipts of the full premium payments by the HA. The difficulty in chasing the remaining part of the premium from those owners with the alienation restrictions lifted was also cautioned against.
- (c) **Practical needs** –
- (i) for those who intend to dispose of their flats, the perceived problem of them not being able to sell their flats due to the lack of cash to pay the premium to the HA may not be real. Subject to the agreement between the seller and the buyer, it is common (and legally in order) for the solicitors to use part of the consideration put up by the buyer for the transaction to pay the premium to the HA in the name of the seller, and then allocate the rest of the consideration to the seller to close the transaction. On record, the seller would be deemed as having settled the premium payment before the transaction with the buyer is completed;
 - (ii) only those HOS owners with no immediate plan for flat disposal would have to rely on their own means if they wish to pay the premium in lump sum. Among these owners, some might wish to settle the premium so as to let out their flats. Some members were of the view that the HA had no obligation to facilitate their payment of premium for such a case which might not fit with the then policy objective of the HOS of promoting home ownership. The inclination was that these owners should resort to the market for financing/paying off the premium; and
 - (iii) some argued that the decision of premium payment should best be left to HOS owners, who should not be swayed by intervention from the HA through the provision of any financial incentives, be they in the form of interest-free or low interest loans. The “non-interventionist” approach would also avoid possible complaints from and grievances of owners who opt for premium payment at a high time of the property market but face a subsequent falling market scenario.
- (d) **Double subsidy** – it was unanimously considered not appropriate for the HA (and the Government) to provide double subsidy to HOS owners who bought the HOS at discounted prices, and have all along been enjoying the subsidised housing.

3. Present Approach

3.1 In conjunction with the Hong Kong Mortgage Corporation (HKMC), initial ideas on a possible premium loan guarantee scheme (the Scheme) to provide an alternative platform for HOS owners to finance their premium payment for the HA have been explored. The proposed approach is based on the following construction:

- (a) the major consideration is to find a market-based solution through the HKMC (and the banks/financial institutions) to cater for more flexible methods in financing the payment of premium to the HA, so as to provide alternative options to interested HOS owners;
- (b) once the HOS owners obtain the loan and pay the premium to the HA, their flats are freed from alienation restrictions. The relationship between the HA and these owners will be no different from those other owners who lift the alienation restrictions in accordance with the existing stipulations as provided for under the Schedule to the Housing Ordinance (Cap. 283); and
- (c) the proposal will not result in additional financial exposure on the HA's part, and the HA will not be involved in the financing arrangements.

3.2 Under the proposed Scheme, HKMC will provide a guarantee arrangement so that banks/financial institutions can in turn facilitate a second mortgage loan (therefore referred as "the premium loan") for HOS owners who wish to settle their premium payment. The owners can then settle the premium loan by installments together with their existing mortgage loans. Some thoughts on how the Scheme may operate with an illustrative example is at **Appendix**.

4. Possible Target Group of the Scheme

4.1 Although it is generally considered that HOS owners who are selling their flats will have no difficulty in settling the premium payment, some HOS owners may still wish to pay the premium ahead of disposal of flats for various reasons. For example –

- some elderly households might wish to move to smaller flats upon departure of their children;
- some other households with young singletons or young couples may also prefer moving to flats near their place of work; and
- those whose flats were previously owned by the parents and reassigned to them may find the flats not suitable for their needs due to change in household size or location.

4.2 There are also some households who may have purchased another home and wish to let their flats for rental income, instead of leaving the flats vacant. An alternative option for financing their premium payment through installment with rental received may better suit their needs.

5. Considerations

Pros

5.1 Possible benefits of the Scheme:

- (c) It is essentially a market-based solution and will not expose the HA to additional financial risks.
- (d) It in effect provides a platform for flexible payment of premium without the concern of double subsidy.
- (e) Since it is formulated within the existing framework, legislative amendments are not required.
- (f) The scheme will facilitate payment of premium for those who wish to sell the flats later or let out their flats, resulting in the provision of more low-end flats, both for sale and rental markets.

Cons

5.2 Possible disadvantages of the Scheme:

- (a) It is difficult to predict the effectiveness of the Scheme, given that those HOS owners who intend to sell their flats at tandem with the payment of premium should have no real problem to do so. However, the Scheme does provide an alternative option to the target households.
- (b) As premium payable is assessed based on the prevailing market value of the flats, HOS owners who have decided to pay the premium at a time when the property prices are high may have grievances against the HA/the Government for putting in place this financing option when the market faces a downward trend.

HKMC's Proposed Premium Loan Guarantee Scheme

Background

- Same as flats in the private sector, HOS flats (once the premium is paid and alienation restrictions lifted) are subject to the Hong Kong Monetary Authority's existing policy, i.e. banks can only offer loans to flat owners if the total amount of the loan does not exceed 70% of the prevailing market value.
- Under the proposed Scheme, HKMC will have a guarantee arrangement with the banks on the portion of the premium loan above 70% of the prevailing market value of the flat. For example, for an HOS flat with current loan-to-value (LTV) ratio of 60% and a premium loan of around 30% LTV, the combined LTV ratio is 90%. HKMC will provide guarantee for the portion over the 70% LTV threshold, i.e. $90\% - 70\% = 20\%$ of the prevailing market value of the flat, with a guarantee fee payable to HKMC. The guarantee fee will be borne by the HOS flat owner, with the bank as the beneficiary.
- Banks will arrange a standalone premium loan (separate from the existing mortgage) to be extended to the borrowers direct. The HA's mortgage default guarantee on the remaining existing mortgage loan will be kept intact.

Illustrative Example

Market value of flat at purchase:	\$2,000,000
Discount rate:	40%
Original purchase price:	\$1,200,000
Original mortgage loan:	\$1,080,000
	(at 90% of original purchase price)
HA original loan guarantee:	\$1,080,000
Current market value:	\$2,500,000
Premium payable	\$1,000,000

	Case 1 HKMC's involvement not required	Case 2 With HKMC's involvement
Original mortgage loan outstanding	\$600,000	\$900,000
HA remaining guarantee	\$600,000	\$900,000
Additional loan required for premium payment	\$1,000,000	\$1,000,000
Total amount of the outstanding loans	\$1,600,000	\$1,900,000
Total amount of the outstanding loans as a percentage of current market value	64%	76%
Financing Arrangements	Banks can secure the loan against the flat, the alienation restriction of which would be lifted upon the payment of premium.	The amount exceeding 70% of the current market value (i.e. \$1,900,000 - \$1,750,000 = \$150,000) may be obtained from the bank with the guarantee provided by HKMC (with a fee) under the proposed scheme

Streamlining Administrative Arrangements and Enhancing Publicity

1. Background

- 1.1 There are certain applications and procedures for HOS owners to follow before they could sell their HOS flats and for prospective buyers of SMS to confirm their eligibility to buy. Premium payment to the HA has to be settled for the HOS flats to be freed from alienation restrictions as stipulated under the Schedule to the Housing Ordinance (Cap. 283). Consideration has been made on whether we could enhance this existing mode of operation for selling and purchase of flats in the HOS Secondary Market. To facilitate consideration of the prospective sellers and buyers, consideration has also been made on whether we could further promote the publicity on HOS and through more promotion channels.

2. Present Situation

- 2.1 Procedures for Sale and Purchase under the Secondary Market Scheme (SMS) –

- (i) **The prospective seller applies to the HA for the Certificate of Availability for Sale (CAS).** Upon receipt of a CAS application, HD will ascertain the ownership of the flat concerned and whether the alienation period of two years had expired. With the CAS, relevant parties (the estate agents and the solicitors, etc.) will readily know that this particular person may sell the HOS flat in question. This in turn facilitates the whole conveyancing process under the Schedule to the Housing Ordinance (the Schedule). The CAS is valid unless there is any change of ownership.
- (ii) **The prospective buyer applies for the Certificate of Eligibility to Purchase (CEP).** Para 4(c)(A) of the Schedule requires a potential buyer of HOS under SMS to be certified by the HA as a person eligible to buy the flat. Upon receipt of a CEP application, HD will ascertain the GF status of the buyer (existing PRH tenants and other Green Form Certificate holders) and other eligibility criteria (e.g. that the household has not received other forms of housing subsidies). It is valid for six months.
- (iii) **After signing the Provisional Agreement for Sale and Purchase (PASP), the purchaser's solicitor must apply for the Letter of Nomination (LN) within one month.** Para 4(c)(B) of the Schedule requires the person entering into an Agreement for Sale and Purchase, and the assignment, to be a person so nominated by HA. The LN is meant to cater for this legal requirement. Upon receipt of an LN application, HD will ensure that the parties who signed the PASP had the requisite CEP and CAS. The eligibility of both the buyer and seller for the assignment of a particular flat is thereby confirmed.

At present, the processing time for CAS and CEP is around three weeks and that for LN is about 7 working days.

2.2 Procedures for payment of premium –

- (i) HOS owners who wish to pay the premium have to apply for assessment of the premium.
- (ii) HD verifies the application and supporting documents, and issues instructions to the appointed premium assessors (APAs).
- (iii) The APAs liaise with the flat owner, conduct flat inspection and carry out the assessment.
- (iv) Upon completion of the assessment for a flat, the APAs issue a Notice of Premium Assessment to the owners, specifying the amount of premium payable.

At present, steps (i) to (iv) above take around one month. The validity period of the assessment is two months¹ from the date of the Notice of Premium Assessment.

3. Proposals

3.1 We have examined the existing mode of operation regarding the transaction of SMS and note the following –

- (1) It is essential to retain application of CAS, CEP and LN from both statutory and administrative points of view to ensure that SMS transactions are in order. Nonetheless, **the entire operation can be shortened from three to two weeks for CEP and CAS; and from seven working days to five working days for LN.**
- (2) The processing time for premium assessment was shortened from six weeks to around one month in 1997. Now that the premium assessment work has been outsourced to APAs for quite some time, with the experience accumulated and taking account of the time needed for APAs to arrange for flat inspection and carry out assessment (14 days), **we consider the entire operation can be further shortened from one month to not more than three weeks.**

¹ The validity period for premium assessment was 3 months before 1997 and the primary consideration was to allow for a reasonable timeframe for completion of formalities of HOS transactions. The HOC agreed in 1997 that a two-month period was reasonable for completion of transactions while at the same time avoided speculation. In addition, according to the Schedule, the premium should be calculated based on the Prevailing Market Value at the time of payment of the premium. Too long a validity period might cause revenue loss to the HA in a rising market.

3.2 At present, information on the procedures for buying and selling of HOS flats, procedures for premium assessment, and details of SMS transactions are available from the HA's website. Notwithstanding this, to increase the understanding of interested parties, we have looked into the existing publicity materials and consider that their presentation and user-friendliness could be enhanced, as set out below –

- (1) To launch a dedicated section on the HA website to provide a one-stop access for information related to HOS and SMS. Existing information will also be enriched for public information. Measures under consideration include –
 - (a) add a banner for all HOS-related information on the HA's homepage for easy access;
 - (b) add and re-organise all HOS-related information on a single platform, with information and functions such as –
 - facts and statistics about HOS; and
 - procedures for buying / selling HOS such as application for premium assessment.
 - (c) add block plans and floor plans of HOS courts showing the layouts of flats, accessible from each page with hyperlinks;
 - (d) upload relevant information such as list of the participating banks and financial institutions to which the HA is providing mortgage default guarantee, so that potential buyers can make an informed decision; and
 - (e) add hyperlinks to government departments or other organisations such as the Land Registry, Consumer Council, the Hong Kong Mortgage Corporation and the Estate Agents Authority, so that potential buyers/ sellers will have better knowledge of the procedures involved in buying and selling of residential units.
- (2) To make use of other publicity materials (such as the EMAC newsletter, posters, leaflets and/or the Housing Channel) for those who are not familiar with or could not access the Internet.
- (3) To enhance existing public enquiry service regarding HOS, such as setting up an HOS information booth at a convenient location (e.g. the Lok Fu Customer Service Centre) in addition to the existing SMS Centre at Lung Cheung Centre.

Facts and Statistics

Part A –Arrangements relating to HOS Transaction and Payment of Premium

1. Overview

- 1.1 HOS flats are sold at a discounted price and hence are subject to alienation restrictions. For HOS flats before Phase 3B, the owners are free to dispose their flats in the open market after the expiry of the five-year restriction period and no premium payment is required. Since the launch of HOS Phase 3B in 1982, owners must, upon expiry of the five-year restriction period (formerly 10-year prior to June 1999), pay a premium for removal of the restrictions before they can sell, let or assign the flats in the open market.
- 1.2 Within the restriction period, the owners may sell their flats back to the HA (at original price within a certain period, and afterwards at assessed market value less discount at the time of purchase). Since June 2005, after two years from the date of first assignment, owners may choose between offering the flats to HA for buyback, or apply to pay premium to remove the alienation restrictions of the flats so as to sell them in the open market.
- 1.3 For some 16 700 surplus HOS flats sold from 2007 onwards, the HA does not accept any buyback offer. Owners may at any time apply to pay premium to sell them in the open market.

2. Calculation of Premium

$$\text{Premium} = \frac{\text{Prevailing Market value}}{\text{Initial Market Value}} \times \text{Discount Rate}$$

where,

$$\text{Discount Rate} = \frac{\text{Initial Market Value} - \text{Purchase Price}}{\text{Initial Market Value}} \times 100\%$$

- The Initial Market Value and Purchase Price are stated in the assignment of the flat from the HA to a purchaser. For example, for a flat with the Initial Market Value at \$1,600,000 and Purchase Price at \$960,000 i.e. a discount rate of 40%, the premium payment would be \$800 000 if the Prevailing Market Value is assessed at \$2,000,000..

3. Premium Payment Procedure

- 3.1 Owner applies for assessment of premium.
- 3.2 Premium assessors appointed by the HD will conduct assessment and issue Notice of Premium Assessment to the owner within one month. The premium assessment is valid for two months.
- 3.3 Owner is required to pay the premium as assessed prior to (or concurrent with, as in common practice) any assignment.
- 3.4 For flats where the five-year alienation restriction period has expired, owners may enter into Agreement for Sale and Purchase (ASP) any time provided that it is a condition of the agreement that the premium as assessed by the Director of Housing is paid prior to the assignment, and within 28 days of the date of agreement or within such period as stipulated by the Director of Housing (which is, at present, two months from the date of the Notice of Premium Assessment).
- 3.5 For surplus HOS flats which are still within the five-year alienation restriction period, the HA will decline buyback offer of the flat when acknowledging receipt of application for assessment of premium. After that, owners may enter into ASP for their flats.
- 3.6 Upon receipt of the premium payment, the HA issues a Certificate for Removal of Alienation Restrictions to the owner.

4. Change of Ownership

- 4.1 Change of ownership is restricted except for disposal in the Secondary Market after two years has elapsed since the first assignment, or in the open market upon payment of premium. However, the HA may at its discretion and on the merit of each case give consent to a request for change of ownership under special circumstances.
- 4.2 The acceptable reasons for applying for consent to change of ownership are:
 - Inclusion of the spouse as joint owner;
 - Transfer to the spouse owing to divorce or separation;
 - Transfer to other family member(s) due to moving out of owner to join his / her spouse upon marriage;
 - Transfer to other family member(s) owing to owner's emigration or long-term working abroad;
 - Owner or spouse or authorized occupant eligible for civil service housing benefits or housing package provided by the employer;
 - Change of ownership reflecting financial contribution towards downpayment / mortgage repayment by an authorized occupant;
 - Transfer of the ownership owing to death of owner;
 - Old age of owner (i.e. 65 years old or above);
 - Owner suffering from terminal disease e.g. cancer; and
 - Bankruptcy of owner.

4.3 Reasons other than the above listed will be considered only in exceptional circumstances.

5. Resale of HOS Flats in the Secondary Market

HOS Secondary Market Scheme

- 5.1 The HA established the HOS Secondary Market Scheme (SMS) in June 1997. It aims to facilitate public housing tenants and Green Form Certificate holders to purchase second-hand HOS flats and TPS flats and in turn encourage the recovery of PRH.
- 5.2 Green Form Certificate Holders are referring mainly to those successful Waiting List applicants where eligibility for public rental housing (PRH) has been established and who are due for allocation of PRH within 1 year.
- 5.3 Under SMS, owners may sell HOS flats (and TPS flats) from the third year onwards from the date of first assignment to tenants of rental housing estates managed by the HA or the Housing Society (HS), authorized residents of Interim Housing managed by the HA, or holders of Green Form Certificate issued by the HD without payment of premium to the HA.
- 5.4 Transactions in the HOS Secondary Market are similar to that in the open market. The purchaser and the seller may negotiate the price freely and conclude the deal either directly or through an estate agent. Purchasers of flats in the HOS Secondary Market will assume the liability to pay the premium if they sell their flats at the open market in the future.

Transaction Procedure

- 5.5 Owner applies for Certificate of Availability for Sale (CAS) and purchaser applies for Certificate for Eligibility to Purchase (CEP). The HA will issue both certificates in about three weeks.
- 5.6 Having obtained CAS and CEP respectively, both parties sign Provisional Agreement for Sale and Purchase (PASP).
- 5.7 Purchaser's solicitor applies for Letter of Nomination (LN) within one month after PASP is signed. The HA will issue LN in seven working days. After LN has been issued, both parties sign Agreement for Sale and Purchase.
- 5.8 Deed of Assignment is executed for change of ownership.

6. Resale of HOS Flats in the Open Market

Transaction procedure

For Pre-3B flats and other flats with premium already paid

6.1 These flats can be sold freely in the open market in the same way as private properties.

For flats sold in Phase 3B (in 1982) to Phase 24A (in 2002) with premium not yet paid

6.2 The five-year alienation restriction period has now expired for all these flats. Therefore, buyback offer as prescribed by the Schedule to the Housing Ordinance (Cap. 283) to the HA is no longer required.

6.3 The owners may enter into Agreement for Sale and Purchase (ASP) any time provided that it is a condition of the agreement that the premium as assessed by the Director of Housing is paid prior to the assignment, and within 28 days of the date of agreement or within such period as stipulated by the Director of Housing.

6.4 The owners may apply for premium assessment before or after entering into ASP. HD's appointed premium assessor will conduct the assessment and issue Notice of Premium Assessment to the owner within one month.

6.5 The alienation restrictions of the flat are removed on the date of HA's receipt of the premium payment. The HA will issue a Certificate for Removal of Alienation Restrictions to the owner. Upon removal of the alienation restrictions of the flat, Deed of Assignment may be executed for change of ownership in the same way as private properties.

For surplus HOS flats sold from 2007 onwards

6.6 The SHC had decided in 2006, vide SHC 6/2006, that for surplus HOS flats, the HA would refuse the buyback offer. In other words, these HOS flats can be traded in the open market upon payment of premium due to the HA. The transaction procedure is the same as above, except that for HOS flats still in the five-year alienation restriction period, owners may enter into ASP only upon the HA's decline of buyback offer of the flat i.e. upon receipt of acknowledgement to their application for assessment of premium.

Part B – Facts and Statistics on HOS (as at end March 2010, unless otherwise stated)

1) HOS Stock

<i>HOS flats with premium paid</i>	64 668*
<i>HOS flats with premium unpaid</i>	255 379
Total HOS flats sold	320 047
Surplus HOS flats to be sold	4 077**
Total stock	324 124

* Including 17 312 Pre-3B flats where owners were not required to pay the premium upon sale of flats.

** The HA decided on 26 March 2010 that the remaining surplus HOS flats be put up for sale in June 2010 earliest.

2) Distribution of HOS Flats

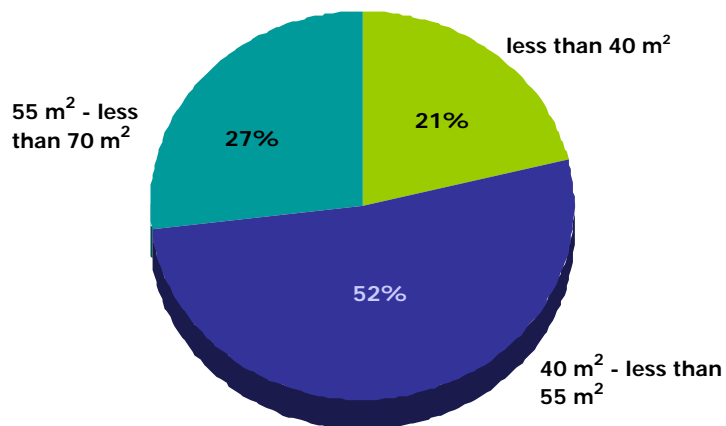
By flat age

Less than 5 years	*
5 - Less than 10 years	14%
10 - Less than 15 years	27%
15 - Less than 20 years	23%
20 - Less than 25 years	22%
25 - 30 years	14%

* Flats aged less than 5 years constitute less than 0.5%

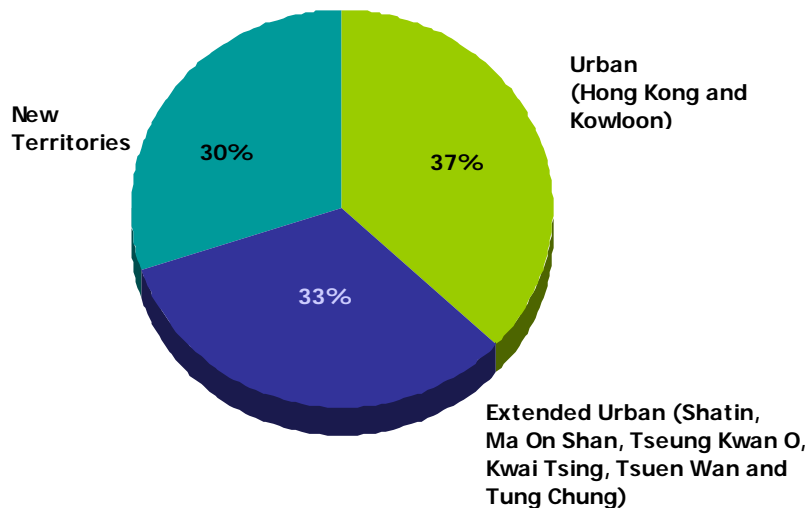
- Oldest HOS blocks - Shun Tai House and Shun Shing House of Shun Chi Court, completed in December 1979 (30 years old as at March 2010).
- Newest HOS blocks - Tung Tao Court, completed in May 2005.

By flat size



- * The flat size range of “less than 40 m²” corresponds to Class A and the flat size ranges of “40 m² – less than 55 m²” and “55 m² - less than 70 m²” correspond to Class B residential properties according to Rating and Valuation Department’s classification.
- * Flats of 70 m² or above constitute less than 0.5%

By geographical region



- * Islands have less than 0.5% of the total number of flats

By District Council

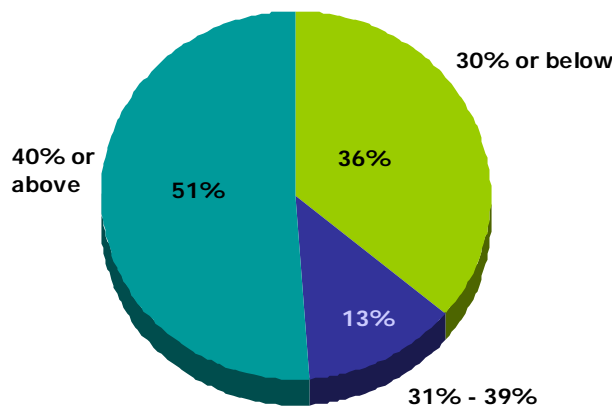
Central & Western	-
Wan Chai	-
Eastern	10%
Southern	3%
Yau Tsim Mong	1%
Sham Shui Po	1%
Kowloon City	1%
Wong Tai Sin	10%
Kwun Tong	10%
Kwai Tsing	5%
Tsuen Wan	-
Tuen Mun	13%
Yuen Long	6%
North	6%
Tai Po	5%
Sha Tin	16%
Sai Kung	11%
Islands	1%

3) Premium Payment Statistics and Discount Rates

Number of premium payment

Year	No. of cases	Amount of premium paid (million \$)
2005	3 391	1 287
2006	2 405	959
2007	2 838	1 178
2008	2 665	1 333
2009	2 667	1 357

Distribution of HOS Flats by rate of discount



* Figures do not include 17 312 Pre-3B flats sold before 1982

Discount Rates by Phase

Application Period	Phase	Discount Rate (%)	Application Period	Phase	Discount Rate (%)
1981/82	3B	47	1993/94	15A	40
1982/83	4A	40		15B	45
	4B	39		15C	48
	4P	7	1994/95	16A	48
1983/84	5A	27		16B	48
	5B	26	1995/96	17A	45
1984/85	6A	17 - 25		17B	45
	6B	14	1996/97	18A	45
	7A	26		18B	45
	7B	21 - 23		18C	45
1985/86	7C	21 - 23	1997/98	19A	50
	8A	24		19B	50
1986/87	8B	24		19C	40, 50, 60
	8C	24			
	9A	24	1998/99	MS1	50
1987/88	9B	24		20A	35, 40, 45
	9C	24			
1988/89	10A	24 - 26		20B	45
	10B	30 - 32	1999/2000	001	45
	10C	30 - 32		21A	45 - 48
1989/90	11A	35 - 39		21B	44
	11B	36 - 37	2000/01	22A	47
	11C	35 - 37		22B	44
1990/91	12A	30	2001/02	23A	40
	12B	30 - 33	2002/03	24A	30
	12C	30	2006/07	S01	30
1991/92	13A	30 - 35	2007/08	S02	30
	13B	35		S03	30
	13C	40	2008/09	S04	30
1992/93	14A	37	2009/10	S05	30
	14B	45			
	14C	45			
	14D	45			

4) Transactions in the Secondary Market (* = provisional figures)

- No. of transactions in 2009*: 1 779
- Total consideration*: \$2 305 million for HOS

Distribution of HOS Flats by Transaction Prices in the Secondary Market

Flat Price	2005	2006	2007	2008	2009
Less than \$0.75M	19%	22%	19%	12%	9%
\$0.75M to less than \$1M	27%	24%	23%	22%	21%
\$1M to less than \$1.25M	22%	19%	22%	17%	18%
\$1.25M to less than \$1.5M	17%	17%	17%	19%	21%
\$1.5M or above	14%	17%	19%	29%	30%
Total	100%	100%	100%	100%	100%
Average (\$M)	1.07	1.09	1.12	1.26	1.30

5) Transactions in the Open Market (* = provisional figures)

- No. of transactions in 2009*: 7 244
- Total consideration*: \$10 583 million for HOS

Distribution of HOS Flats by Transaction Prices in the Open Market

Flat Price	2005	2006	2007	2008	2009
Less than \$0.75M	16%	15%	11%	4%	3%
\$0.75M to less than \$1M	25%	24%	21%	16%	13%
\$1M to less than \$1.25M	27%	29%	26%	18%	17%
\$1.25M to less than \$1.5M	17%	16%	21%	22%	23%
\$1.5M or above	15%	16%	21%	40%	44%
Total	100%	100%	100%	100%	100%
Average (\$M)	1.11	1.13	1.21	1.41	1.46

Part C – Facts and Statistics on TPS (as at end March 2010, unless otherwise stated)

1) TPS Stock

<i>TPS flats with premium paid</i>	641
<i>TPS flats with premium unpaid</i>	116 496
TPS flats sold	117 137
PRH flats included under TPS but unsold	66 271
Total	183 408

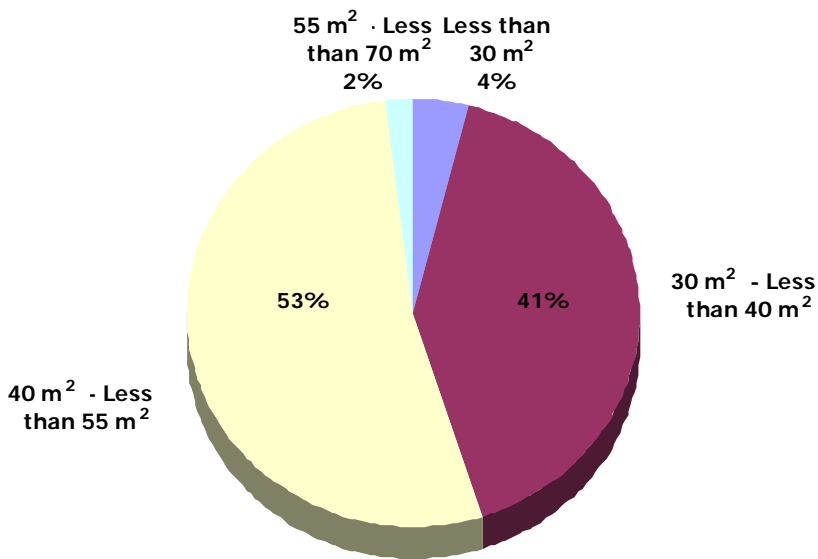
- 64% (117 137 out of 183 408) of the PRH flats put up for sale under TPS were sold.

2) Distribution of Sold TPS Flats

By flat age

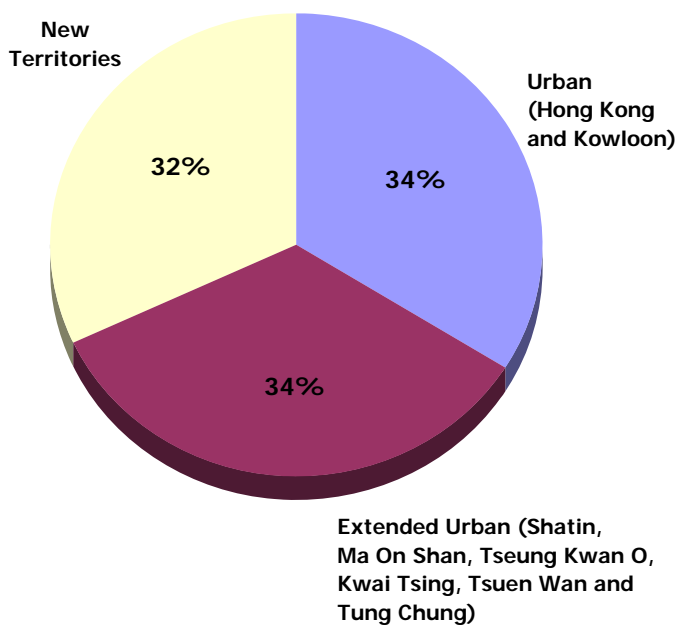
Flat age (a)	TPS Flats Sold	PRH flats included under TPS but unsold	Total
Less than 15 years	-	-	-
15 - Less than 20 years	26%	23%	25%
20 - Less than 25 years	68%	66%	67%
25 - Less than 30 years	6%	11%	8%
30 years or above	-	-	-
Overall	100%	100%	100%

By flat size*



- * The flat size ranges of “Less than 30 m²” and “30 m² – Less than 40 m²” correspond to Class A, and the flat size ranges of “40 m² – Less than 55 m²” and “55 m² – Less than 70 m²” combined correspond to Class B residential properties in R&VD classification.
- * Flats of saleable area of 70 m² or above constitute less than 0.5%

By geographical region



By District Council District

<u>District Council District</u>	<u>Sold Flats (TPS Flats)</u>	<u>Unsold Flats (PRH Flats)</u>	<u>Total</u>
Central & Western	-	-	-
Wan Chai	-	-	-
Eastern	2%	1%	2%
Southern	6%	5%	6%
Yau Tsim Mong	-	-	-
Sham Shui Po	4%	4%	4%
Kowloon City	-	-	-
Wong Tai Sin	14%	11%	13%
Kwun Tong	8%	9%	9%
Kwai Tsing	9%	6%	8%
Tsuen Wan	-	-	-
Tuen Mun	8%	18%	12%
Yuen Long	3%	7%	5%
North	10%	9%	10%
Tai Po	11%	12%	11%
Sha Tin	17%	9%	14%
Sai Kung	8%	8%	8%
Islands	-	-	-
Overall	100%	100%	100%

3) Premium Payment Statistics and Discount

Number of premium payment

<u>Year</u>	<u>No. of cases</u>	<u>Amount of premium paid</u>
2005	35	\$13.0 million
2006	66	\$24.9 million
2007	137	\$53.3 million
2008	154	\$71.6 million
2009	175	\$86.5 million

Discount and Credit

- TPS flats are sold at list prices, which are discounted prices calculated with reference to the adjusted replacement cost of the flats. The rate of discount is calculated with reference to the market value at the time of purchase (i.e. the Initial Market Value). It varies between flats offered in different phases and changes over time. The list prices are subject to review every 2 years.

Discount currently on offer

	Year Launched	Phase Discount	Effective date of current list prices
Phase 1 flats	1998	52%	1.1.2010
Phase 2 flats	1999	50%	1.4.2009
Phase 3 flats	2000	50%	1.1.2010
Phase 4 flats	2001	47%	1.1.2009
Phase 5 flats	2002	50%	1.1.2010
Phase 6A flats	2004	56%	1.7.2008
Phase 6B flats	2005	48%	1.9.2009

- In addition, new tenants who purchase TPS flats within two years from commencement of the tenancy can enjoy special credit. They can enjoy a full credit if they buy within the first year and a half credit in the second year. Credit is calculated as a percentage of the list price and the prevailing full credit rate is 35%.

4) Transactions in the Secondary Market (* = provisional figures)

- No. of transactions in 2009*: 190
- Total consideration* : \$123.3 million

Distribution of flat prices of TPS flats transacted in Secondary Market

Flat Price	2005	2006	2007	2008	2009
Less than \$0.25M	10%	4%	5%	1%	-
\$0.25M to less than \$0.5M	53%	56%	43%	22%	22%
\$0.5M to less than \$0.75M	31%	37%	42%	45%	45%
\$0.75M to less than \$1M	6%	3%	10%	29%	29%
\$1M or above	-	-	0%	3%	4%
Total	100%	100%	100%	100%	100%
Average (\$M)	0.46	0.46	0.52	0.65	0.65

5) Transactions in the Open Market (* = provisional figures)

- No. of transactions in 2009*: 207
- Total consideration* : \$198.2 million

Distribution of flat prices of TPS flats transacted in Open Market

Flat Price	2005	2006	2007	2008	2009
Less than \$0.25M	34%	16%	5%	3%	2%
\$0.25M to less than \$0.5M	14%	20%	16%	6%	3%
\$0.5M to less than \$0.75M	32%	38%	41%	15%	15%
\$0.75M to less than \$1M	16%	22%	26%	41%	44%
\$1M or above	5%	3%	12%	35%	36%
Total	100%	100%	100%	100%	100%
Average (\$M)	0.46	0.55	0.69	0.9	0.96