

# **Long Term Housing Strategy Implementation Milestones as at December 2014**

Transport and Housing Bureau

# Long Term Housing Strategy

## Implementation Milestones as at December 2014

### Introduction

On 16 December 2014, the Government released the Long Term Housing Strategy (LTHS). This paper is released together with the LTHS and sets out the up-to-date implementation of key aspects of the LTHS.

### Review of the Long Term Housing Demand Projection and the Ten-year Supply Target

#### *Updated Projection*

2. The Government has updated the projection of long term housing demand for the ten-year period from 2015-16 to 2024-25, using the methodology recommended by the LTHS Steering Committee. By summing up the projected housing demands from net increase in the number of households, households displaced by redevelopment, inadequately housed households and miscellaneous factors, the projected demand should range from 430 220 to 496 880 units, with the mid-point being 463 500 units. Adding to that a margin for vacancy of private flats<sup>1</sup>, the ten-year total housing supply should range from 448 000 to 516 000 units, with the mid-point being 482 000 units. Accordingly, we will adopt **a total housing supply target of 480 000 units for the ten-year period from 2015-16 to 2024-25**. Details of the updated projection are at **Annex A**.

#### Annex A

3. That said, as explained in Annex A, household formation is dependent on, among other things, economic growth. Following the methodology recommended by the LTHS Steering Committee, we have

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<sup>1</sup> Based on about 46 570 vacancy units as at end 2013, and the average vacancy rate of about 5.0% from 2004 to 2013.

adopted the Census and Statistics Department (C&SD)'s domestic household projections as the starting point, which are basically a trend-based projection assuming no change in government policy and that all factors affecting household formation will continue with similar trend in future as in the past. As with all trend-based projections, there is thus an implicit assumption that the economy will grow at around the historical trend rate in the projection period. Yet, it has been increasingly obvious that economic growth in Hong Kong in the coming ten years is likely to be lower than the historical trend growth rate of 4.5% per year during the period from 2004 to 2013<sup>2</sup>. As household formation is sensitive to the economic situation, household formation is expected to slow down with a below-trend economic growth. Therefore, it is rather likely that the actual long term supply needed to meet the community's housing demand would in fact be closer to the lower end of the range, though it is difficult to provide an exact figure at this juncture due to the substantial economic uncertainties which we are currently facing, including the possible new norm of lower global economic growth, the Federal Reserve of the United States' (US) normalisation process for its monetary policy and the population ageing in Hong Kong. Against such background, we will undertake a review of how the various evolving global and local economic factors would affect the domestic household projection and in turn the long term housing demand projection in the annual updating exercise next year when the economic situation is hopefully clearer.

### *Split between Public and Private Housing*

4. To send a clear message to the community that the Government is taking the lead in increasing public housing supply while ensuring the stable and healthy development of the private market, we will maintain the **public/private split of 60:40** for the ten-year period from 2015-16 to 2024-25. To meet the public housing target of 290 000 units, and taking into account the rising aspirations for home ownership in the community, we will aim at providing **200 000 public rental housing (PRH) units and about 90 000 subsidised sale flats**, while keeping the interchangeability of PRH and subsidised sale flats so as to maximise flexibility to respond to changing demand patterns that will be reviewed from time to time. These

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<sup>2</sup> Real Gross Domestic Product (GDP) grew at an average rate of 4.5% per annum during 2004 to 2013. By comparison, in the 2014-15 Budget, the medium-term real GDP growth for 2015-18 was forecast at 3.5% per annum; in the Report of the Working Group on Long-Term Fiscal Planning, the assumption on real GDP growth was 3.5% per annum in 2019-21, and at 3.0% per annum in 2022-25.

production targets should be able to strike a reasonable balance between providing PRH units to those who cannot afford private rental accommodation, and providing subsidised sale flats to meet the home ownership aspirations of the lower to middle-income groups, especially first-time home buyers and youngsters. At the same time, the private housing supply target will be 190 000 units over the ten-year period.

## **Land Supply for Housing**

### ***Latest Position***

5. The Housing Authority (HA) maintains a Public Housing Construction Programme (PHCP). Updates of the PHCP are presented to the Legislative Council (LegCo)'s Panel on Housing regularly. According to the latest PHCP presented at the meeting of the LegCo's Panel on Housing on 1 December 2014, the total public housing production forecast for 2014-15 to 2018-19 is about 87 700 units, comprising 77 100 PRH units and 10 600 Home Ownership Scheme (HOS) flats.

6. As of now, in terms of land supply, the Government has identified land for the construction of 254 000 public housing units<sup>3</sup> for the period from 2015-16 to 2024-25. As for private housing, the supply target of 190 000 units for the period from 2015-16 to 2024-25 will continue to be met through various private housing land supply sources including government land sale, railway property development projects, urban renewal projects and private development and redevelopment projects. Based on the latest projection as at September 2014, there will be a supply of 74 000 units in the first-hand private residential property market in the coming three to four years.

### ***Measures to Increase Housing Land Supply***

7. Meeting the long term housing supply target is undeniably a huge challenge for both the Government and the community. The Government is expeditiously taking forward a series of major land development projects in support of the future housing, social and economic development needs of Hong Kong. These include large-scale new development areas and new

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<sup>3</sup> Assuming that all sites identified can be delivered on time for housing construction.

town expansion that aim to provide a quality living environment and space for employment creation through putting in place the necessary infrastructures and striking a balance between development and environmental conservation. Reclamations at suitable locations are also being explored to increase the availability of developable land. Moreover, exploration of cavern developments and underground space is underway so as to increase the land and space for meeting the various needs of Hong Kong. These projects take time to materialise and would serve to ensure our medium to long term land supply.

8. However, there is no easy painless option to increase or to expedite land supply in the short run. The most immediate and effective way to augment land supply for housing in the short to medium term is to make more optimal use of the developed areas in the existing urban areas and new towns, as well as the land in the vicinity of existing infrastructures, through land use reviews and increasing development intensity wherever practicable. These include converting suitable sites for housing development, maximising the use of existing housing sites and fast-tracking the delivery of sites for meeting the demand for housing. These are already being pursued at full steam by the Government under its multi-pronged approach to increase land supply.

9. To make land available for development to meet the housing supply target would require difficult choices and delicate trade-offs to be made by the community as a whole. There is simply no magic solution that can increase land supply without impacting on the local community. For instance, among about 150 potential housing sites identified by the Government that require statutory plan amendments for development within 2014-15 to 2018-19 to produce some 210 000 housing units (over 70% of which are for public housing), some 70 sites are within “Green Belt” zoning with a total size of about 150 hectares and can produce over 80 000 public and private units. Making these sites available would require the community to accept the conversion of these “Green Belt” sites, which amount to about 1% of our overall “Green Belt” areas (for comparison purpose, our country parks are about 43 455 hectares in size) and some have varying degrees of vegetation including trees, for housing development. Likewise, increasing development intensity and converting existing vacant government land for housing would inevitably lead to more

developments within existing communities. This is the kind of choice and trade-off that the society as a whole would have to accept in order to meet the housing target.

*Increasing Development Intensity where Planning Terms Permit*

10. Taking into account relevant planning considerations, the Chief Executive announced in the 2014 Policy Address that except for the north of Hong Kong Island and Kowloon Peninsula, which are more densely populated, the maximum domestic Plot Ratio (PR) that can be allowed for housing sites located in the other Density Zones of the Main Urban Areas and New Towns would be raised generally by about 20% as appropriate. Increase in development intensity for individual housing sites is not automatic, and will continue to be subject to necessary approval by the Town Planning Board (TPB) under the statutory planning mechanism where applicable. However, it does require the society to accept that there will be more developments within existing communities, and there will inevitably be traffic, environmental and other impacts. The Government will take positive steps to ensure that such impacts are within acceptable limits, but we have to accept that “zero-impact” is simply impossible.

11. In assessing such cases, the Planning Department (PlanD) will continue to take into account pertinent planning considerations such as the traffic and infrastructure capacity in the area, existing characters and development intensity of the neighbourhood, the potential environmental, visual and air ventilation impacts, etc. in determining the domestic PR of each housing site. The increase in maximum domestic PR will continue to observe relevant planning principles and considerations, and will be adopted only when there is scope in terms of development capacity and the various constraints and impacts so arising, if any, could be addressed or mitigated through appropriate measures. In other words, we will continue to ensure that such constraints would not be insurmountable and such impacts would not be unacceptable from the relevant technical perspectives for the housing developments to proceed.

12. Under this initiative, subject to the necessary planning approvals by the TPB, individual housing sites will be able to provide more developable floor area (the actual increase in population capacity or flat number will depend on family and flat unit size as well as other factors). This can help increase the land supply for housing. Development intensity of the newly identified private and public housing sites has been increased accordingly where appropriate with a view to making optimal use of our scarce land resources. The revised guidelines on development intensity have also been adopted in on-going planning studies and land use reviews as appropriate, and will also apply to future ones. If necessary, the Government will submit planning applications to the TPB to seek approval for increasing the development intensity of individual residential sites. Since February 2014, the TPB has approved such planning applications in respect of nine housing sites in Tuen Mun, Ma On Shan, Sha Tin, Fanling and Kwai Chung. For privately owned sites, the TPB would adopt the same planning principles in considering applications for increasing development intensity.

#### *Land Use Reviews*

13. To meet the housing and other development needs of the community, the Development Bureau (DEVB), together with relevant departments, has been carrying out land use reviews, including reviews on government land currently vacant, under Short Term Tenancies or different short-term or government uses, Green Belt sites, as well as sites reserved for various other land uses. Similar to increasing development density of individual housing sites, in converting these sites for housing development, the PlanD will also take into account pertinent planning considerations such as the traffic and infrastructure capacity in the area, the potential environmental, visual and air ventilation impacts, etc., to ensure that the impacts would not be unacceptable. However, it also requires the community to accept that some of the sites currently vacant or vegetated near existing developments will be converted to housing development. The Government will endeavour to ensure that the provision of community facilities would not be adversely affected as a result, through more effective and efficient use of land.

14. As reported in the 2014 Policy Address, the Government has identified about 150 potential housing sites (with a total land area of about 300 hectares) requiring amendments to their respective statutory plans for change of land use and/or increase in development intensity, before they could be made available for housing development in the five years from 2014-15 to 2018-19 for providing over 210 000 flats. Based on preliminary estimate, over 70% of the flats to be constructed on these sites would be public housing units. The Government is consulting 16 District Councils on these 150 or so sites identified in their respective districts. As at mid-November 2014, the Government presented relevant site information to 13 District Councils on over 100 such potential housing sites. Out of these some 150 sites, 42 of them were undergoing the statutory rezoning procedures for residential use. The statutory plan amendment for the rest of the sites will be proceeded with as expeditiously as possible with a view to making them available early for housing development.

### ***Other Measures to Expedite Housing and Land Supply***

#### *Streamlining Procedures*

15. Relevant bureaux and departments have been working closely to carry out the necessary assessments and/or resolve the technical issues involved, with a view to expediting the land formation, infrastructure construction and other required procedures for the timely delivery of housing units. For instance, the Lands Department (LandsD) works closely with the Housing Department to shorten the land resumption/clearance process where practicable, taking into account the necessary statutory procedures, and the scale and complications of the individual land resumption/clearance involved. The PlanD seeks to expedite the amendments to the relevant Outline Zoning Plans subject to the availability of pertinent information and broad technical assessments on the housing projects. Both the PlanD and the LandsD will conduct site search for permanent and temporary reprovisioning of affected facilities respectively.

16. Besides, to enhance the capability in land supply and development, the manpower in the DEVB and relevant departments has been strengthened to provide support to increasing and expediting land supply. A new Land Supply Tracking Subcommittee has been set up under the Committee on Planning and Land Development to monitor land supply and coordinate the improvement of land-supply-related information systems, so as to further enhance inter-bureau and inter-departmental coordination in site tracking and land production at all levels.

17. Our planning, land administration and building regimes are established and administered by different instruments for different policy objectives. Over the years, these regimes have been modified and enhanced taking into consideration the aspirations of the community as well as the changing circumstances in the business of development. The Government endeavours to streamline and expedite the various processes having regard to the views of stakeholders and practitioners in the relevant fields, while upholding the principles and policy objectives that these regimes are set up to achieve. Our latest initiatives to expedite land and housing supply under the planning, land administration and building regimes are set out at **Annex B**.

Annex B

#### *Enhancing Manpower Supply of the Construction Industry*

18. With the onset of major infrastructure projects and other construction works including housing, the forecast overall construction output will be maintained at a high level. Meanwhile, the construction industry is facing the problems of an ageing workforce, shortage of skilled workers and skills mismatch. The DEVB has adopted a multi-pronged approach to help address the manpower demand. Measures include enhancing training and construction productivity, stepping up publicity and promotion, as well as improving the working environment for workers and construction site safety, etc. Details of the measures to enhance manpower supply of the construction industry are set out at **Annex C**.

Annex C

## **Financing of the Housing Authority**

19. As projected in the HA's current five-year Budgets and Forecasts adopted in January 2014, the HA would have sufficient financial resources to meet its recurrent expenditure and implement the public housing construction programme covered in 2013-14 to 2017-18. Nevertheless, the cash and investment balance of the HA was projected to decrease from about \$70 billion to about \$28 billion by the end of March 2018 due to the increase in public housing production. To achieve the new public housing production target, it is clear that the HA will come under increasing fiscal pressure in the longer term and that the Government's funding support to the HA will become necessary. The Government is fully aware of this and has been in discussion with the HA.

20. On its part, the HA has been working on various measures to consolidate cost savings and enhance revenue to ensure that public funds will continue to be used in the most cost-effective manner. On the expenditure side, the most significant component of the HA's capital expenditure is construction expenditure. The HA has been working towards increasing cost-effectiveness of its construction programme. However, costs have continued to increase due to the notable tender price increase in the local construction market; site specific factors such as small scaled project, substantial site formation works for sloping site, complex foundation for difficult ground condition, etc.; and increasing demand for facilities in housing projects. In this regard, the HA has recently put in place an alert mechanism based on construction cost per flat to facilitate more focused monitoring of individual projects.

21. As regards recurrent expenditure, the Government has recently launched a savings programme with the aim to deliver a cumulative total of 2% recurrent savings over three financial years from 2015-16 to 2017-18 (i.e. 0% in 2015-16, 1% in 2016-17 and another 1% in 2017-18). The HA will consider how to adopt a similar cost saving approach.

22. On the revenue side, rental income from PRH is a major source of the HA's income. The HA has conducted the third rent review in accordance with the rent adjustment mechanism specified in Section 16A of the Housing Ordinance, and has increased the PRH rents by 10% with

effect from September 2014. It is estimated that as a result, the total revenue in the current five-year budget and forecast period will be increased by about \$5 billion, and this change on its own will increase the HA's cash and investment balance to around \$33 billion by end 2017-18. As required by Section 16A of the Housing Ordinance, the next rent review is due in 2016.

23. As for investment return, about 50% of the HA's cash and investment balances are placed with the Exchange Fund as Principal Protection Placements with an investment horizon of six years. To help maintain stable investment return from the HA's decreasing cash and investment balance, the HA has recently reached an in-principle agreement with the Hong Kong Monetary Authority on the extension of an existing placement with the Exchange Fund upon its maturity in October 2015.

24. The HA will continue to conduct its annual rolling five-year Budgets and Forecasts exercise, assess its medium term financial projections, and will seek the Government's funding closer to the time of need so that the assessment could reflect the most up-to-date situation.

### **Rational Use of Public Rental Housing Resources**

25. The LTHS Steering Committee has made a number of recommendations on how to enhance PRH-related policies, such as the Quota and Points System (QPS), the Under-occupation Policy and the "Well-off Tenants Policies", with a view to maximising the rational use of PRH resources. In its Report No. 61 on the allocation and utilisation of PRH flats, the Public Accounts Committee of the LegCo has also recommended the Government to review policies related to the rational utilisation of PRH resources. The HA has taken note of these recommendations and has reviewed the policies relating to the rational use of PRH resources.

### ***Quota and Points System***

26. Given the current tight supply of PRH, the HA has reaffirmed its policy to accord priority to general applicants (i.e. family and elderly one-person applicants) over non-elderly one-person applicants under the QPS. It also agrees that, among the QPS applicants, older applicants might have relatively limited upward mobility to improve their living conditions on their own and therefore deserve higher priority for flat allocation.

27. Taking into account the LTHS Steering Committee's recommendation to increase the annual PRH quota for applicants under the QPS, and in order to balance the housing needs of other categories of PRH applicants, the HA has decided to increase the annual QPS quota from 8% to 10% of the number of flats to be allocated to waiting list applicants, subject to a cap to be increased from 2 000 to 2 200 units. It has also agreed to refine the points system by increasing the scale of age points in order to reduce the inadvertent incentive for early application under the QPS as pointed out by the Director of Audit, and to award one-off bonus points to applicants who have reached the age of 45 in order to improve their chance to gain earlier access to PRH<sup>4</sup>.

28. The HA has also decided to conduct regular check on QPS applicants who have waited for five years but not yet due for detailed vetting within the next two years, with a view to screening out ineligible applicants. The above refinements to the points system and the regular checking of eligibility will be implemented from 1 February 2015. The increase in quota under the QPS will take effect starting from 2015-16 onwards.

### ***Under-occupation Policy***

29. The Under-occupation Policy enables the HA to recover larger PRH units for reallocation to PRH applicants and overcrowded tenant families. Both the LTHS Steering Committee and the Director of Audit recognise the importance of the Under-occupation Policy in ensuring the

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<sup>4</sup> Under the refined arrangement, the scale of age points will be increased from 3 to 9 points per year of age increase at the time of application. In addition, a one-off bonus of 60 points will be awarded to applicants when they have reached the age of 45.

rational allocation of PRH resources. On the other hand, some members of the public have expressed concern over the handling of under-occupation cases, particularly those households with elderly members aged 60 to 69<sup>5</sup>.

30. The HA has discussed these views and suggestions for changing the current policy and practice. While the HA will uphold the Under-occupation Policy as a measure to ensure the rational use of precious PRH resources, it will continue to adopt a reasonable and considerate approach in implementing the Policy. The HA has decided to grant a stayput period of one year to those Prioritised Under-occupied households that need transfer to smaller flats because of death of family members. It will also provide Prioritised Under-occupied households rent free periods to encourage early transfer, in addition to current assistance and incentives. In addition, the HA will take into account the views expressed by various parties in its next review of the Under-occupation Policy. Possible areas for consideration include exclusion of under-occupied households with members aged 60 to 69 from the under-occupation list.

### ***Well-off Tenants Policies***

31. During the public consultation on the LTHS, various views were expressed regarding the “Well-off Tenants Policies”. For example, some respondents called for a further tightening up of the Policies by shortening the initial income declaration period and the subsequent income and asset declaration period, or by requiring tenants to move out of PRH when either their income or asset level exceeded the respective limits, etc. However, some respondents considered that the Well-off Tenants Policies went against the Government’s policy to encourage younger members of a family to look after the elderly, and some even considered that the Policies should be scrapped. Such views are diverse to say the least. The HA has considered these views and some preliminary options to refine the Policies. The HA considers that every option has its merits and downside. The HA further notes the potential impact of various options on different sectors of the community, and considers that a prudent approach should be adopted in any review of the Policies and that more deliberations are necessary to reach practical and broadly equitable solutions.

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<sup>5</sup> Under existing policy, households with disabled members or elderly members aged 70 or above are already excluded from the under-occupation list.

## *Other Measures*

32. The HA will continue to implement other on-going measures vigilantly to ensure the best use of PRH resources. In keeping with the recommendation of the Director of Audit, the HA will strive to expedite the allocation of vacant PRH flats. Whenever vacant flats are available for letting, be they new flats or refurbished ones, the HA will make the best endeavour to let them out as quickly as possible. As for less popular flats which cannot be let out in a year's time despite repeated attempts, the HA will provide rent reduction to encourage acceptance. The HA also conducts the Express Flat Allocation Scheme annually to boost up the letting rate of these flats. As at 30 September 2014, the number of lettable vacant flats<sup>6</sup> stood at about 3 880, representing a vacancy rate of 0.52% against the total lettable PRH stock of about 740 700 flats. It was well within the HA's target of below 1.5%.

33. The HA will continue to tackle tenancy abuse. It has already launched a series of publicity campaigns to enhance the public's awareness of the need to cherish PRH resources. Frontline estate management staff will continue to take stringent measures to curb tenancy abuse through daily monitoring and biennial flat inspections. In addition, the HA will conduct investigations into randomly selected cases as well as suspected abuse cases referred by frontline management and the public. In the past three years, the HA carried out in-depth investigation on some 8 000 occupancy-related cases which were either referred by frontline management and the public or detected through special inspection exercises and random selections. On average, some 400 PRH flats were recovered due to tenancy abuse each year. In 2014-15, 30 experienced staff were redeployed to strengthen the action on tackling tenancy abuse.

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<sup>6</sup> There are certain flats which are not occupied but are "unlettable" since they are reserved for a purpose and are not available for letting to PRH applicants. They include flats pending or under conversion or structural repairs; flats withheld from allocation for operational/management reasons; flats reserved with reservation fees paid by the Urban Renewal Authority, etc. There are also flats which are "under offer" to applicants and are expected to be taken up in the near future.

## **Subsidised Home Ownership**

### ***Private Sector's Role***

34. Currently, the HA is the primary provider of subsidised sale flats through the HOS. The private sector had in the past also contributed to the provision of subsidised sale flats through the Private Sector Participation Scheme (PSPS) introduced in 1978 as a supplement to the HOS. Under the PSPS, the Government offered sites by tender to private developers to build flats according to requirements laid down in a Technical Schedule. Flats had to be sold to purchasers nominated by the HA. Purchasers were subject to the same set of eligibility criteria and resale restrictions as were applicable to subsidised sale flats sold under the HOS. In addition to the PSPS, the Government introduced a Mixed Development Pilot Scheme (MDPS) in 1997, under which successful tenderers of the relevant residential sites were required to hand over a specified proportion of flats within their development to the Government for sale to eligible purchasers at designated prices. Following the repositioning of the Government's housing policy in 2002, the PSPS and MDPS were terminated.

35. Taking into account the recommendation of the LTHS Steering Committee, the Government is exploring the feasibility of leveraging on the resources of private developers to expedite the supply of subsidised sale flats. The Government is mindful of the views expressed by some respondents during the public consultation exercise that the quality and costs of subsidised housing provided through the private sector should be comparable to (if not more competitive than) those provided by the HA. We are reviewing past experiences with the PSPS and the MDPS, and developments since then, to determine whether and how to involve the private sector in the supply of subsidised sale flats.

### ***Promoting Circulation in the Secondary Market***

36. In response to the home ownership aspirations of lower to middle-income families, the HA launched an interim scheme in early 2013 to allow buyers with White Form (WF) status to purchase HOS flats with premium not yet paid under the HOS Secondary Market Scheme (the Interim Scheme). A quota of 5 000 was issued in two batches in May 2013 and December 2013 respectively. As at 30 September 2014, about 2 160 WF buyers purchased HOS flats with premium not yet paid through the Interim Scheme. Without the Interim Scheme, it would be difficult for those 2 160 households (which, after all, is not a small number) to purchase private housing in the open market in view of their affordability.

37. In addition to helping WF buyers to meet their home ownership aspirations before the completion of the first batch of new HOS flats in 2016-17, the Interim Scheme has also helped promote the circulation of HOS flats with premium not yet paid under the HOS Secondary Market Scheme. However, with only one round of the Interim Scheme, there are still uncertainties about the full and exact impact on prices of flats in the HOS Secondary Market. Given the strong demand for subsidised sale flats in the society nowadays, the HA has decided that before conducting a full review of the Interim Scheme, it will implement one more round of the Interim Scheme in mid-2015 with a reduced quota of 2 500 to better test out the effect of the Interim Scheme.

### **Healthy and Stable Residential Property Market**

38. One of our policy objectives for housing is to maintain a healthy and stable residential property market, which is crucial to the sustainable development of Hong Kong as a whole. As mentioned earlier, the Government will strive to secure a stable supply of land for the development of private residential properties. To address the exuberant property market arising from a tight supply of flats, extremely low interest rates and abundant liquidity environment, the Government has introduced various demand-side management measures including enhanced Special Stamp Duty and Buyer's Stamp Duty in October 2012 and doubled ad valorem stamp duty in February 2013. The relevant bills were passed in February and July 2014 respectively.

39. Demand-side management measures are extraordinary measures introduced under exceptional circumstances. The Government will remain vigilant and continue to monitor the property market closely, and will consider adjusting existing measures or putting in place new measures as and when necessary. In addition, as pledged to the LegCo, the Government will review the implementation of the demand-side management measures in 2015.

**Transport and Housing Bureau  
December 2014**

## **Annual Updating of the Projection of Long Term Housing Demand**

### **Purpose**

This Annex sets out the results of the annual updating of the projection of long term housing demand for the ten-year period 2015-16 to 2024-25.

### **Background**

2. In the public consultation document published in September 2013, the LTHS Steering Committee put forward a new methodology for projecting long term housing demand. Under the new projection methodology, housing demand is defined as the total number of new housing units required to provide adequate housing to each and every household over the long term. The methodology takes into account the following components in projecting the number of new housing units required –

- (a) net increase in the number of households;
- (b) households displaced by redevelopment;
- (c) inadequately housed households; and
- (d) miscellaneous factors<sup>1</sup>.

### **Last Projection for 2013-14 to 2022-23**

3. Based on the above methodology, the LTHS Steering Committee conducted a projection on long term housing demand for the ten-year

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<sup>1</sup> The miscellaneous factors taken into account include (a) private permanent living quarters occupied by households with mobile residents only; (b) non-local students who may take up accommodation in Hong Kong; and (c) non-local buyers who take up flats without selling or leasing them.

period from 2013-14 to 2022-23. Details of the projection were set out in the LTHS Consultation Document published in September 2013. During the three-month public consultation exercise, respondents generally accepted the demand components recommended by the LTHS Steering Committee for long term demand projection purposes, and there was considerable support for the ten-year supply target of 470 000 units derived from the projection model as recommended by the LTHS Steering Committee. Respondents also generally agreed that public housing (including PRH and subsidised sale flats (primarily HOS flats)) should play a more prominent role and should account for at least 60% of the new production for the coming ten years. The Government also adopted in the 2014 Policy Address the housing supply target of a total of 470 000 units for the ten-year period from 2013-14 to 2022-23, with public housing accounting for 60%. To meet the target, the Government aims to provide an average of about 20 000 PRH units and about 8 000 HOS units per year.

#### **Updated Projection for 2015-16 to 2024-25**

4. In December 2014 the Government published the LTHS. The LTHS requires the annual updating of the ten-year demand projection and supply target, in accordance with the method specified. Accordingly, the Government has conducted an updated projection of the long term housing demand.

5. The ten-year demand projection and supply target adopted in the 2014 Policy Address were prepared by the LTHS Steering Committee in the second quarter of 2013, based on data available primarily in 2012-13, for the ten-year period 2013-14 to 2022-23. Accordingly, the new demand projection and supply target take into account the latest data available in 2014-15, and thus should cover the ten-year period from 2015-16 to 2024-25. In future, the Government will announce by the end of each financial year the updated projection for the following ten years.

***(a) Net increase in the number of households***

6. The latest domestic household projections published by the C&SD in January 2013<sup>2</sup> are used as the basis for assessing the overall physical housing demand from the net increase in the number of households. Based on the C&SD's latest available information, the average annual net increase in the number of households from mid-2015 to mid-2025, amounting to about **28 280 units** per year is adopted for projecting the housing demand for the ten-year period 2015-16 to 2024-25.

7. Similar to last year's projection exercise, in order to conduct scenario analysis on household formation under different economic and property situations, an econometric modeling exercise has been undertaken to quantify the relationship between household formation and economic performance (as proxied by real Gross Domestic Product (GDP) growth rate) and housing market situations (as proxied by average vacancy rate of private flats). Results show that the number of household formations will be in the range of 254 520 to 311 080, representing a +/-**10.0%**<sup>3</sup> from the C&SD's domestic household projection of 282 800 households over the ten-year projection period 2015-16 to 2024-25.

8. It should be noted that the C&SD's domestic household projections are the starting point in this exercise. They are basically trend-based projections assuming no change in government policy and that all factors affecting household formation will continue with similar trend in

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<sup>2</sup> This is the latest set of domestic household projections available and is based on results of the 2011 Population Census.

<sup>3</sup> According to the econometric model adopted, in the past 20 years, the number of households formed was higher when the local macroeconomic performance was better or the private domestic vacancy rate was higher. Under the base case, it is assumed that the real economic growth and private domestic vacancy rate in the next ten years would be similar to those of the past ten years (i.e. 4.5% and 5.0% respectively) in order to project the household formation in the next ten years.

In order to work out a lower limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 3.5% and 4.0% respectively in the next ten years (i.e. 1% point lower than the base case). Under this lower case scenario, the household formation in the next ten years would be around 10% lower than the base case.

In order to work out an upper limit of households formed, it is assumed that the real economic growth and the private domestic vacancy rate would be 5.5% and 6.0% respectively in the next ten years (i.e. 1% point higher than the base case). Under this upper case scenario, the household formation in the next ten years would be around 10% higher than the base case.

future as in the past. As with all trend-based projections, there is thus an implicit assumption that the economy will grow at around the historical trend rate in the projection period. Yet, it has been increasingly obvious that economic growth in Hong Kong in the coming ten years is likely to be lower than the historical trend growth rate of 4.5% per year during the period from 2004 to 2013, due to the following factors –

- (a) possible new norm of lower global economic growth;
- (b) the US Federal Reserve's normalisation process for its monetary policy; and
- (c) population ageing in Hong Kong.

In fact, the medium-term real GDP growth forecast for 2015-18 has been marked down to 3.5% per annum in the 2014-15 Budget. In the Report of the Working Group on Long-Term Fiscal Planning, the assumption on real GDP growth was 3.5% per annum in 2019-21, and at 3.0% per annum in 2022-25. These are all below the trend growth of 4.5% per year during 2004 to 2013.

9. Historical data suggests that household formation is dependent on, among other things, economic growth. Conceivably, when the economic growth slows down, household formation and thus housing demand will follow suit. As economic growth in the coming ten years is likely to be lower than the past ten-year growth trend of 4.5% per annum as discussed above, the actual household formation would likely be closer to the lower end of the range projection, rather than at the mid-point. There is thus a case for adopting the lower end, instead of the mid-point, of the range projection for the purpose of projecting housing demand. However, it is difficult to provide an exact figure at this juncture due to the substantial economic uncertainties we are currently facing, especially as the timing and the pace of an eventual interest rate hike and their impact on the Hong Kong economy is uncertain. In view of the above, we will take a conservative approach and adopt the mid-point of the range projection for the current exercise. We would undertake a review of how the various evolving global and local economic factors would affect the domestic household projection and in turn the long term housing demand projection in the annual updating exercise next year when the economic situation is hopefully clearer.

*(b) Households displaced by redevelopment*

10. Households displaced by the redevelopment of old buildings in the public and the private sectors have to be rehoused, thus generating new housing demand on top of the net increase in the number of households. Based on announced redevelopment plans from the HA and the Hong Kong Housing Society (HS), as well as past trends in the private sector, it is estimated that there will be a new housing demand of about **39 100 units** from households displaced by redevelopment for the ten-year period 2015-16 to 2024-25, with the breakdown as follows –

<b>Redevelopment programmes</b>	<b>Number of units</b>
(a) Redevelopment of public housing units	
<i>The HA's redevelopment of Pak Tin Estate</i>	2 900
<i>The HA's clearance of Long Bin interim housing (IH)<sup>4</sup></i>	500
<i>The HS's redevelopment programme of Ming Wah Dai Ha<sup>5</sup></i>	700
Sub-total	4 100
(b) Redevelopment of private units (based on past trend of the number of private flats demolished from 2010 to 2013 <sup>6</sup> )	35 000
<b>Total = (a) + (b)</b>	<b>39 100</b>

***(c) Inadequately housed households (IHHs)***

11. For households living in public housing which have been built to satisfy the housing needs of the community, they are regarded as living in adequate housing. As regards households living in private housing, the

<sup>4</sup> Following the approval of the HA's Subsidised Housing Committee (SHC) in January 2014 on the clearance date of Long Bin IH by January 2016 and the rehusing and associated arrangements, about 500 households which are residing in Long Bin IH have been included in the projection of demand from households displaced by redevelopment. Although some of these households may have already been rehoused before the start of the projection period (i.e. before 2015-16), a conservative approach has been taken to include all these 500 households affected by clearance of Long Bin IH in the projection of long term housing demand for 2015-16 to 2024-25.

In conducting the projection of long term housing demand for 2013-14 to 2022-23, the demand from households displaced by the HA's conversion of vacant flats in Po Tin IH to PRH units (following the SHC's decision in June 2004) was taken into account. As Po Tin IH will become the sole IH in the New Territories upon the clearance of Long Bin IH in January 2016, the IH units in Po Tin will no longer be converted to PRH in order to meet the anticipated demand for IH. As such, it has not been included in the projection of long term housing demand for 2015-16 to 2024-25.

<sup>5</sup> The number of units in the HS's redevelopment programme of Ming Wah Dai Ha refers to the number of units affected by redevelopment.

<sup>6</sup> From 2010 to 2013, the average number of private flats demolished was about 1 750 per year. As regards the number of households displaced by private redevelopment, there may be more than one household in a unit in older private buildings, and this should be taken into account in the projection. However, there is currently no reliable data to make a projection of this situation. The only benchmark that we can draw reference from is the data of the Urban Renewal Authority (URA). According to the URA's data, about 960 units were affected in its urban redevelopment projects commenced between 2010-11 and 2013-14, in which 1 900 households were involved. In other words, there were on average about 2.0 households living in a private unit demolished. Therefore, it is estimated that the number of households displaced by redevelopment in the projection period will be 35 000 (=17 500 x 2.0).

following circumstances are taken into account in determining whether households are inadequately housed for the purpose of the projection –

- (a) if the housing unit is made up of temporary structures (e.g. huts, squatters and roof-top structures);
- (b) if the unit is located in a non-residential building (e.g. commercial and industrial building);
- (c) if the unit is shared with other households (e.g. those living in rooms, cubicles, bedspaces and cocklofts in the private permanent buildings); and
- (d) if the unit is subdivided.

12. In respect of paragraph 11(a), based on the 2011 Population Census and updated with the findings of the General Household Survey (GHS) conducted by the C&SD, it is estimated that in 2013<sup>7</sup> there were about 15 700 households living in temporary structures. As for paragraph 11(b), according to the 2011 Population Census, there were 3 000 units located in non-residential buildings (there are no updates from the GHS as it does not cover such units). As for paragraph 11(c), according to the 2011 Population Census and updated with the GHS, there were 11 300 households living in shared units.

13. In respect of households living in shared units, and subdivided units (SDUs) discussed below, the LTHS Steering Committee noted that not all households living in these units were necessarily inadequately housed, given that these units vary in standards and actual living environments. However, the LTHS Steering Committee chose to adopt a conservative approach and included all these households in the housing demand projection. It is also worth noting that a unit shared by two or more households or subdivided into two or more units may be able to provide adequate housing for one household if it is not shared or subdivided. In other words, there may not be a need to provide adequate housing to all the households living in a shared unit or an SDU. While these observations are valid, currently there is insufficient data to enable a meaningful analysis of the situation. In future exercises, when more data is available, it may

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<sup>7</sup> For the purpose of the annual updating of the demand projection, the 2011 Population Census results were updated based on annual trend data observed from GHS over the years 2011 to 2013.

be possible to formulate a projection taking into account the above observations. But for this annual updating, following the LTHS Steering Committee's conservative approach, all households sharing units with others or living in SDUs are deemed to be inadequately housed and thus would have housing needs which has been taken into account in the demand projection.

14. As for paragraph 11(d), the C&SD has commissioned a survey on households living in SDUs in its Thematic Household Survey on Housing Conditions. While the fieldwork of the Survey has been completed, the detailed figures are still being compiled. The C&SD has provided some provisional estimates for the purpose of long term housing demand projection. Based on these estimates, there are a total of 86 400 SDUs in Hong Kong , with breakdown as follows –

- (a) 5 400 are with unobservable physical partitions (i.e. rooms, cubicles, bedspaces and cocklofts inside a unit of quarters); and
- (b) 81 000 are with observable physical partitions. Out of these 81 000 units, 45 700 are located in buildings aged 50 years or below, while the remaining 35 300 units are located in buildings aged above 50 years.

15. On paragraph 14(a) above, as explained in paragraph 12, a similar figure on households living in rooms, cubicles, bedspaces and cocklofts inside a unit of quarters is available from the 2011 Population Census and the GHS. As the coverage of the 2011 Population Census and the GHS is more comprehensive and the estimated figure (i.e. 11 300 households) is larger than that estimated in the Thematic Household Survey on Housing Conditions (i.e. 5 400 households), following the LTHS Steering Committee's conservative approach, the figure of 11 300 households is adopted for the purpose of projecting housing demand.

16. On paragraph 14(b) above, as similar figures are not available in the 2011 Population Census/GHS, only the estimated number provided in the provisional results of the Thematic Household Survey on Housing Conditions can be used in the projection. Following the projection methodology put forward by the LTHS Steering Committee, as SDUs situated in buildings aged above 50 years have a higher chance to be

redeveloped in the next ten years, adjustments are necessary to deduct households living therein from the estimate of housing demand in order to avoid double counting with households displaced by private redevelopment.

17. In last year's projections, the LTHS Steering Committee considered that as buildings aged over 50 years stand a high chance of being targeted for redevelopment, to avoid double counting, it had excluded all SDU households living in buildings aged above 50 years from the counting of IHHs, on the assumption that housing demand from these households should have been covered in the projected demand of households affected by private redevelopment.

18. In conducting this year's updating exercise, we have explored whether we can refine the above assumption by drawing reference from past pattern. Drawing reference from data kept by the Rating and Valuation Department (RVD), we project that the demolition rate of private residential units aged above 50 years old would be 15.3% over a period of ten years<sup>8</sup>. According to the provisional data of the Thematic Household Survey on Housing Conditions, there are 35 300 households living in SDUs with observable physical partitions located in buildings aged above 50 years. Applying the demolition rate of private units aged above 50 over ten years to these 35 300 SDUs located in buildings aged above 50 years, it is estimated that about 5 400 ( $=35\,300 \times 15.3\%$ ) of them would be redeveloped in the next ten years. Accordingly, they have been deducted from the estimate of IHHs to avoid double counting. While following the LTHS Steering Committee's direction, we consider that this arrangement would be more reliable than simply deducting all SDUs with observable physical partitions in buildings aged above 50 from the projection of demand from IHHs. Although the demolition rate of all private units aged above 50 years may not be comparable with that of SDUs, it takes time

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<sup>8</sup> According to the RVD's data, there were about 1 090 600 private domestic units in Hong Kong as at the end of 2009, of which about 36 000 units were built before 1960 (i.e. having reached age 50 in 2010). In each of the years of 2010, 2011, 2012 and 2013, about 390, 430, 800 and 580 units which were built before 1960 were demolished respectively. In other words, an average of about 550 units per year is demolished in these four years. Assuming this trend would continue for the future six years, the number of units which have reached age 50 in 2010 and would be demolished in the ten-year period from 2010 to 2019 would be about 5 500 units ( $=550 \times 10$ ), accounting for about 15.3% of the total stock of 36 000 units. We have further applied this demolition rate in the projection for the period from 2015-16 to 2024-25.

before a predictive trend on the redevelopment of SDUs can be observed. When more information is available in future, it can be taken into account in future annual updating of the projection.

19. After deducting 5 400 households living in SDUs with observable physical partitions located in buildings aged above 50, the estimated demand from households living in these SDUs will be about 75 600 units (=81 000 – 5 400).

20. Summing up the above estimations, the estimated number of IHHs is **105 600**, with the breakdown summarised as follows –

	<b>Category of IHHs</b>	<b>Estimated number</b>	<b>Source of information</b>
(a)	Households living in units made up of temporary structures	15 700	2011 Population Census and updated with the trend based on the GHS
(b)	Households living in non-residential buildings	3 000	2011 Population Census
(c)	Households sharing the same unit with other households	11 300	2011 Population Census and updated with the trend based on the GHS
(d)	Households living in SDUs with observable physical partitions	75 600	Based on provisional estimates from the Thematic Household Survey on Housing Conditions in 2014
	<b>Total</b>	<b>105 600</b>	

*(d) Miscellaneous factors*

21. Apart from the above demand components, there may also be demands in the next ten years which are unaccounted for in the C&SD's domestic household projections. These include –

- (a) an increase of some 700 per year for private permanent living quarters occupied by households with mobile residents<sup>9</sup> only, based on the past trend as observed from results of the 2001 Population Census and the 2011 Population Census;
- (b) non-local students who might take up accommodation in Hong Kong. On this, reference has been drawn to the past trend of the number of student visas issued (from 12 200 in 2008-09 to 24 400 in 2012-13), and statistics from the Education Bureau and the University Grants Committee in 2012-13 that about 50% of these students (including undergraduates and postgraduate students) were not living in residential halls/hostels provided by the institutions. Assuming a similar trend of increase in the number of non-local students in the next ten years (i.e. a net increase of some 1 200 non-local students per year needing to find their own accommodation in the private housing market), and further assuming that on average two non-local students will share one housing unit, the estimated housing demand will amount to some 600 per year; and
- (c) apart from the demand from the local population, there may be some buyers from outside Hong Kong who may purchase flats but without channelling them back to the market (i.e. not selling or leasing out their units). Drawing reference from statistics of the Inland Revenue Department (IRD) and the RVD, it is estimated that the demand of non-local buyers who may take up flats but without channelling them back to the market<sup>10</sup> will be in

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<sup>9</sup> Mobile residents refer to Hong Kong permanent residents who have stayed in Hong Kong for at least one month but less than three months during the six months before or after the reference time-point, regardless of whether they are in Hong Kong or not at the reference time-point.

<sup>10</sup> Although these units are bought by non-local buyers and without being channelled back to the market, this does not imply that they are vacant units. These units may be occupied by the owners as residence, second home, vacation home or for other purposes.

the range of 1 800 to 2 810 units per year, i.e. a mid-point of about 2 300 units per year<sup>11</sup>.

22. Assuming that the past trends as detailed above will continue in the next ten years, there will be an additional housing demand of some 3 600 units per year (= 700 + 600 + 2 300), or a total of 36 000 units over the ten-year period 2015-16 to 2024-25, with an upper and lower range of 41 100 and 31 000 respectively.

***(e) Gross total housing demand***

23. In gist, it is estimated that there will be a net increase of 282 800 households in the projection period, with an upper and lower range of 311 080 and 254 520 respectively. As regards households displaced by redevelopment, it is estimated that there will be 39 100 households displaced by redevelopment in the projection period. On IHHs, it is estimated that the number of IHHs in Hong Kong to be taken into account in the demand projection is 105 600. As for the miscellaneous factors, it is estimated that there will be a housing demand of 36 000 units, with an upper and lower range of 41 100 and 31 000 respectively. Summing up these demand components, the estimated gross total housing demand will be 463 500 units (mid-point) for the projection period from 2015-16 to

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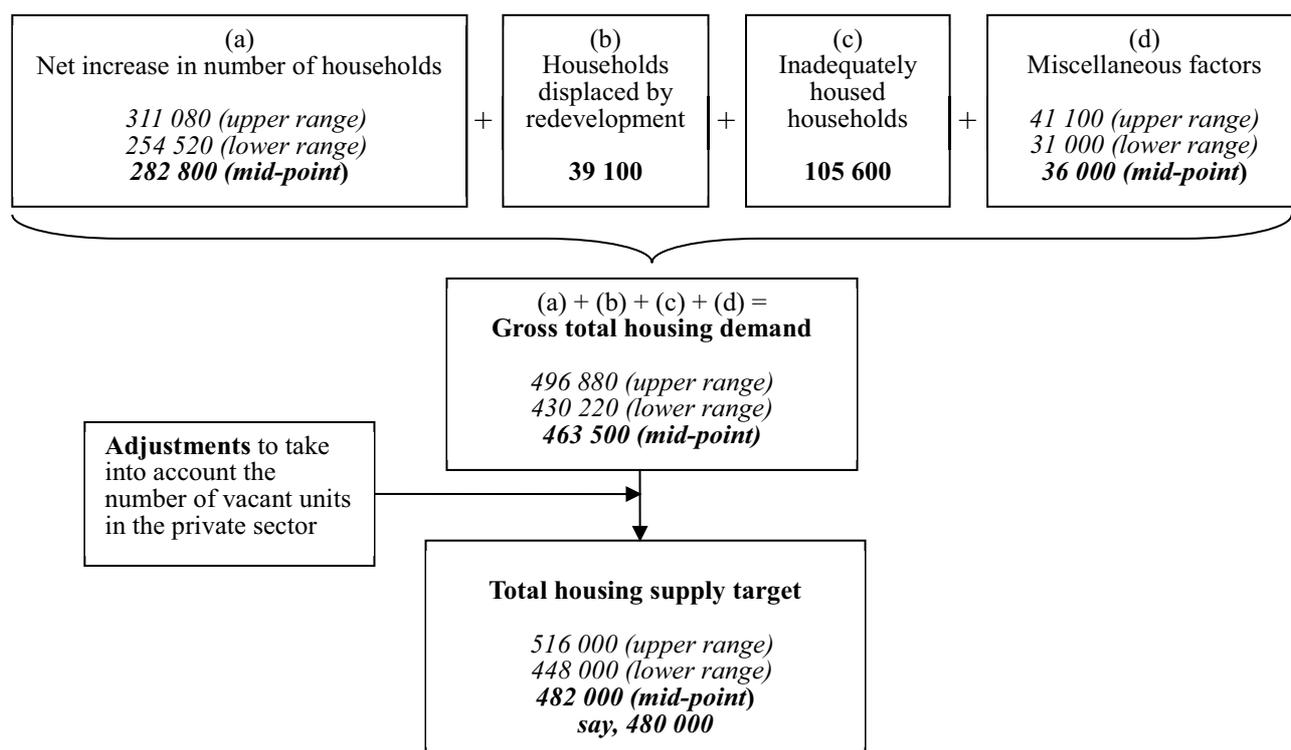
<sup>11</sup> The IRD's stamp duty statistics show that purchases of residential properties by non-local buyers (including non-local individual and non-local company buyers) had been generally rising in 2007 to 2011. Their purchases as a share of total transactions rose from 3.5% in 2007 to 4.5% in 2010 and further to 6.5% in 2011. After the Government introduced the Buyer's Stamp Duty (BSD), their purchases averaged at 2.0% of total transactions in January 2013 to July 2014. With reference to the above, it is crudely assumed that the share of purchases by non-local buyers would be 5.0% (average share of non-local buyers among all transactions in 2009 to 2011) as the upper range and 2.0% as the lower range. Using the annual average number of stamped transactions in 2007 to 2013 (112 340 cases) as rough indication, the purchases by non-local buyers would be around 5 620 cases per year as the upper range and 2 250 cases per year as the lower range in the coming ten years, with a mid-point of 3 930 cases.

According to analysis conducted on transactions suspected to involve non-local buyers, around 52% to 55% of the properties purchased in 2010 to 2012 were let out and had active records in the RVD's rental database. Yet the share plunged to 21% in 2013, which might reflect the more significant effect of BSD on investors than owner-occupiers. Based on the above, it is assumed that in the upper case where the share of purchases by non-local buyers is taken as 5% (or 5 620 cases), half of the purchases (50%) by non-local buyers would be owner-occupied or left vacant, and the remaining 50% would eventually be channelled back into the leasing market for the local population for take-up; whereas in the lower case where the share of purchases by non-local buyers is taken as 2% (or 2 250 cases), it is assumed that 80% of the purchases would be owner-occupied or left vacant. Applying these ratios to the total purchases by non-local buyers, the projected demand by non-local buyers would thus be around 2 810 units per year as the upper range and 1 800 units as the lower range in the coming ten years, and the mid-point would be about 2 300 units per year.

2024-25, with an upper and lower range of 496 880 and 430 220 units respectively.

**(f) Total housing supply target**

24. As there are always a certain number of flats left vacant in the private sector at any point in time, to derive the total housing supply target, we have to take into account the number of vacant units at the beginning of the projection period (about 46 570) and the possible vacancy rate at the end of the projection period. On this, we have drawn reference from the average vacancy rate in the private sector from 2004 to 2013 (about 5.0%) as the basis for estimation. According to projection results of the gross total housing demand, and taking into account the vacancy situation of private flats, it is projected that the total housing supply in the next ten years should range between 448 000 and 516 000 units, with the mid-point being 482 000 units. Details are summarised in the chart below –



25. As mentioned in paragraphs 7 to 9 above, a major factor of some of the estimates involved is GDP growth, and there are indications that economic growth in Hong Kong in the coming ten years may well be lower than the historical trend growth rate of 4.5% per year during the period

from 2004 to 2013. Nonetheless, as it is difficult to give an exact figure due to the substantial economic uncertainties we are currently facing, we will take a conservative approach and adopt a total housing supply target of **480 000 units** for the ten-year period of 2015-16 to 2024-25. It should be noted that this projected housing supply target falls within the range of projections worked out last year for the period 2013-14 to 2022-23 (i.e. between 440 000 and 500 000 units).

**Streamlining of the Planning, Land Administration  
and Building Regimes**

**Streamlining Town Planning Process**

To streamline the planning approval process, the TPB has introduced broad use terms under the Master Schedule of Notes to Statutory Plans (MSN) to allow greater flexibility, thereby reducing the need for planning applications without compromising suitable controls. The TPB also reviews MSN and the Definition of Terms from time to time to take account of the changing planning circumstances. Moreover, with the enactment of the Town Planning (Amendment) Ordinance 2004, exemptions from making amendments to development schemes previously approved under s.16, s.17 and s.17B of the Town Planning Ordinance have been built into the system. In gist, changes which fall under Class A amendments are exempted from submitting further application to the TPB, while Class B amendments are subject to approval by the TPB on application.

2. To further speed up the approval process, the TPB has delegated its authority to the Director of Planning to consider s.16A(2) applications for Class B amendments. Such applications will be considered within six weeks upon receipt. An application which is considered unacceptable by the departments concerned, or involving deletion of the previously proposed Government, Institution or Community facilities (initiated by government departments) will be submitted to the TPB for consideration within the statutory time limit of two months. To facilitate submissions, where necessary, applicants may request a pre-submission meeting with the PlanD with the participation of other relevant government departments prior to formal submissions to the TPB. Furthermore, the PlanD has promulgated a Practice Note for Professional Persons No. 4/2005 setting out guidelines on how an applicant can make enquiries, with a view to facilitating and thereby shortening the time required for the discussion and processing of his/her development submissions. A letter has also been issued to the key developers and consultants in June 2013 encouraging them to make use of this facilitative arrangement.

### **Streamlining Land Administration Process**

3. The LandsD has been reviewing the processes under lease and implemented enhancement measures such as simplification of some lease conditions, alignment with the Buildings Department (BD)'s standard in respect of a number of items in approving building plan submission under lease and streamlining the procedures in processing lease modification (including land exchange) applications. Two consolidated/revised Practice Notes on the processing of building plans under lease were promulgated in August 2014 to assist the trade. The LandsD will continue to review and, where practicable, implement further suitable measures to facilitate land development.

### **Pilot Scheme for Arbitration on Land Premium**

4. A lease modification/land exchange application, including premium negotiation, is a contractual matter between the Government acting in the capacity of a private landlord and the applicant, which could be completed and executed only with mutual agreement. To facilitate early agreement on premium for lease modification/land exchange applications so as to advance land supply for housing and other uses, the Government launched in October 2014 a Pilot Scheme for Arbitration on Land Premium for lease modification/land exchange applications as an administrative initiative for facilitating the determination of premium. The Pilot Scheme will be implemented for a trial period of two years, to be followed by a review by the Government.

### **Streamlining Building Development Process**

5. The BD is committed to adopting a positive attitude towards building development. Its mission is to facilitate building professionals in the approval process while ensuring public safety and health. While the BD is subject to statutory time limits in vetting and approving building plans and related applications, it endeavours to streamline and expedite the application and approval process. Over the years, it has introduced various facilitation measures in consultation with the industry. For

instance, the BD has made available fast-track concurrent approval and consent for certain types of works to expedite the development process. It has also put in place a pre-submission enquiry service to facilitate early clearance of basic design principles prior to formal submission of plans. Practitioners may make use of the enquiry service to consult the BD as early as possible on the use of any new or sophisticated design and construction methods before preparing the detailed design.

6. As part of the recent efforts, the BD issued in September 2012 a “Friendly Reminder on Preparation of Building Plans and Occupation Permit” for use by authorised persons to facilitate preparation of applications for early approval, and introduced in November 2013 simplified procedures for renewal of hoarding permits and refinements on curtailed checking of drainage plans. In early January 2014, after consultation with the industry, the BD promulgated new streamlined procedures for developers to carry out rectification works to completed buildings after the issue of occupation permit. The above process of improving the plan approval procedures is on-going. In addition, the BD is now carrying out a benchmarking exercise jointly with the industry on plan submission quality with a view to further facilitating preparation of plans for early approval. The BD will continue to maintain a close dialogue with the industry through the established channels. In the 2013-14 and 2014-15 financial years, the BD also strengthened its manpower for handling plan approval work.

## **Measures to Enhance Manpower Supply in the Construction Industry**

The DEVB obtained funding approvals from the LegCo's Finance Committee for a total of \$320 million in 2010 and 2012 to support the Construction Industry Council (CIC) to strengthen its role in training local construction personnel and enhance promotion and publicity efforts to attract more people, especially young people, to join the industry. Amongst other initiatives, the DEVB collaborates with the CIC to launch the Enhanced Construction Manpower Training Scheme (ECMTS) to train about 6 000 semi-skilled workers by end 2014 for trades facing labour shortage, acute ageing and difficulties in recruiting new trainees. Up to September 2014, about 5 500 ECMTS trainees have graduated. The CIC expects that the above-mentioned target of 6 000 can be met as scheduled. To diversify the modes of training and provide more training places, the CIC has launched the Contractor Cooperative Training Scheme, under which trainees can be hired and trained on-site to facilitate early acquisition of site experience. Since the launch of various training initiatives, the CIC has substantially increased the number of training places over the past years.

2. In May 2011, the DEVB collaborated with the CIC to launch the "Build-Up Publicity Campaign" which comprised various publicity and promotion activities to project a positive image of the industry. The latest image tracking survey in 2014 has revealed that the percentage of young people interviewed who are willing to join the industry has been increased significantly to 27.3%, as compared with that of only 7.9% before the launch.

3. Although these initiatives have been implemented smoothly and attained certain achievements, the shortage problem of skilled workers has yet to be fully resolved. The Government will continue to strive to meet the manpower demand by training and re-training local workers and attracting more new entrants to join the industry. However, there are

limitations<sup>1</sup> in training local workers to meet the mounting manpower demand. With due regard to the principle of not affecting the employment and not lowering the wages of local workers, there is a need to import skilled workers in a timely manner. This will not only help meet the manpower demand of the industry, but will also make room for the local in-service skilled workers to nurture semi-skilled workers.

4. Currently, contractors having genuine difficulties in recruiting suitable staff locally may consider applying for importation of workers at or below technician level through the Supplementary Labour Scheme (SLS). The CIC set up a task force with the industry stakeholders including relevant trade associations and labour unions in early 2014, and has identified shortage trades for the industry. On the other hand, having regard to the shortage trades identified by the CIC, after consulting the Labour Advisory Board, the Labour Department rolled out a new arrangement in mid-April 2014 to expedite in collaboration with relevant policy bureaux and departments the preparatory works for SLS applications submitted by contractors involving the shortage trades related to public sector works, with a view to saving time for administrative work. It facilitates timely importation of skilled workers for public sector works with genuine needs, thereby relieving the shortage of skilled workers in the shortage trades for the construction industry on the whole. The Government will liaise closely with the industry to review the effectiveness of the arrangement in a timely manner and make modifications as appropriate.

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<sup>1</sup> Graduate trainees are semi-skilled workers who would need time and on-site practice for them to be nurtured as skilled workers. However, there are insufficient in-service skilled workers to nurture them. Further, the productivity of in-service skilled workers will also be affected by nurturing the semi-skilled workers.

