

**A Statement by the Secretary for Housing, Planning and Lands, Mr Michael Suen, at
the Legislative Council on the Implementation and Consolidation of Housing Policy
15 October 2003**

President,

Last November, I delivered at this Council a statement on housing policy, repositioning the Special Administrative Region Government's housing policy and proposing a series of measures to deal with the serious imbalance of supply and demand in the property market, with a view to restoring the confidence of the public and investors. I would like to take this opportunity to brief Members on the latest situation concerning the supply of private flats. I would also wish to explain how we are going to implement and consolidate the relevant policies and measures on the basis of the prevailing housing policy.

Implementation of the Housing Policy

In the Statement on Housing Policy announced last year, I clarified that the Government's role was to provide subsidised rental housing for families in need, and that the Government would withdraw from the role of property developer by halting the production and sale of public subsidised flats, thereby minimising its intervention in the market. We must also maintain a fair and stable environment to enable the sustained and healthy development of the private property market. The public have in general considered that it is the right direction.

During the process of implementing the measures, we have been aware of various opinions, some saying that the measures have not fully realised the desired effects. Moreover, there have occasionally been speculations in the market as to whether the Government will introduce any new measures. I fully understand the public's concern on the development of the property market. Actually, when I announced the Statement last year, I already said that we should not expect the measures to be able to resolve all the problems immediately. However, I firmly believe that a clear, comprehensive and consistent housing policy is instrumental in restoring the confidence of the public and investors in the property market.

Supply of New Flats on the Decrease

The question of when supply and demand in the property market can achieve equilibrium, which hinges on the overall economic situation and market confidence, remains a matter

of public concern. In order to have a firm grasp of the latest position of the property market, the Government has devised a comprehensive monitoring system and database on private housing, and the data are updated regularly for the implementation of timely measures. According to the number of Notifications of Commencement of Foundation Works filed with the Buildings Department, the number of works commencement in the private sector has decreased substantially from 1998 onwards. In 1998, foundation works for more than 35 000 new units commenced; in 2002, some 17 000 new units commenced; and in the first nine months of 2003, only 11 000 new units. It is anticipated that the total number of works commencement throughout 2003 will hit a record low. As for 2004 and thereafter, the number of works commencement will be even less. It is estimated that the number of sites immediately available for commencement of foundation works in the market will produce no more than several thousand units in one year.

Although the current supply of private residential housing is still abundant, the production "peak" has passed. Based on a normal lead time of about three years for housing production starting from the foundation works, the current number of works commencement reflects that there will be a drop in the production volume of private housing in the next few years. According to the number of projects for which construction works have already commenced, it is anticipated that while the supply of flats will remain in excess of 20 000 in both 2004 and 2005, the number will decrease to only about 10 000 in 2006, and drop even further to about 4 000 in 2007. Judging from the current situation, the supply of new flats in the next few years will only be on the decrease.

Consolidation of Housing Policy

We have now a clear grasp of the supply of private flats in the next few years. The property market has begun to stabilise and there have been initial signs of a rebound in recent months. We therefore believe that we must implement and consolidate the relevant policies and measures on the existing basis to further coordinate the supply of new flats. This will help strengthen public confidence in the market and help the property market regain its vitality.

(a) Railway Land

First of all, the property development projects of the two railway corporations have always been an issue of public concern. There are indeed many stations along the railways of the two corporations above which sites are available for property development. We have to ensure that the construction and completion of these projects will not have an

adverse impact on the market.

The Government has negotiated with the Kowloon-Canton Railway Corporation (KCRC) in this connection. KCRC also announced yesterday that the residential development projects at the sites of the Tai Wai maintenance centre and Tai Wai Station of the Ma On Shan Rail, which involve 7 200 flats, will be carried out by phases and that the first batch will be completed no earlier than 2008. KCRC will not invite expression of interests for these two development projects until 2005 the earliest. Development schedules for the remaining property developments at Wu Kai Sha Station and Che Kung Temple Station of the Ma On Shan Rail have yet to be finalised, pending KCRC's review on the development priorities of individual projects and its further coordination with the Government. As for the property developments along the West Rail, the Government has entered into an agreement with KCRC in respect of the railway and its residential development projects. As such, the Government has decided to review the development and timetables for the property sites along the West Rail first according to the latest market situation. And KCRC, being a government agent, has also expressed openly that the first batch of the residential developments along the West Rail, which will be carried out in phases, will only be completed in 2008/09 at the earliest. Besides, KCRC will not invite expression of interests for the projects concerned before 2005/06.

On the other hand, a major project that has yet to be launched by the Mass Transit Railway Corporation Limited (MTRCL) is the residential development in Tseung Kwan O Area 86, which can provide 21 000 residential flats and is expected to be developed in nine phases. According to the latest announcement made by MTRCL in September, it will review the planning for Tseung Kwan O Area 86 to further enhance the property developments there. Therefore, it is anticipated that the first batch of 2 000 residential flats will not be completed until 2007 the earliest. In other words, no new residential flats will be provided by MTRCL in the coming three years except those which are already under construction. MTRCL has also revealed earlier in public that being a listed company, it will definitely not sell land "at a pathetic price", and that it will take into account the demand of the market before inviting tenders for property development rights.

In order to enable an orderly disposal of the railway related property developments according to market demand, we will step up liaison with the two railway corporations on the pace and timing of tendering their property developments under the existing mechanism coordinated by the Director of Lands. I will also take a personal interest in the matter and keep it under constant review in conjunction with the railway corporations having regard to the prevailing market conditions.

(b) Government Land Supply

When I announced the Statement on Housing Policy last November, I clearly stated that land supply should be determined by market demand. Therefore, the Government decided last year that scheduled land auctions should be stopped. At the same time, in view of the exceptional dire state of the property market, the Government also decided to suspend the Application List System until the end of 2003. Thereafter, the supply of new land will only be triggered from the Application List.

As I have just mentioned, the supply of new private flats in the next few years will be on the decrease and the situation of supply in excess of demand will hopefully be rectified gradually. To uphold the implementation of government policies, we will regulate the demand for land through market forces to foster a healthy and normal development of the property market. In view of this, the Government has decided to resume the Application List System from January 2004.

Under the Application List System, any developer interested in any of the sites on the list may submit an application to the Government, but the developer must offer a minimum price that it pledges to pay for the site. If the Government considers the minimum price offered by the applicant reasonable and acceptable, it will put up the site for sale by open tender or public auction taking the offered price as the upset price and following the principle of selling the site to the highest bidder. In case the site cannot be successfully sold at that upset price or above in the public auction, the Government will withdraw the site. We will ensure that the sites on the Application List will not be sold at pathetic prices.

In fact, in addition to lowering the risk of over-supply and reducing government intervention in the property market, supplying land through the Application List System can also provide the property market with information on land sales by the Government and increase the transparency of the market. The Government is now preparing the Application List and making operational arrangements to tie in with the resumption of land sales through the Application List System next year. Before deciding on how to draw up the Application List, the Government will take into account market situation and development needs, and consider carefully the quality and location of individual sites as well as the number of flats that can be built on these sites. Details will be announced in January 2004.

Let me reiterate that land is an important asset of Hong Kong. Under no circumstances will we sell land at a pathetic price.

(c) Building Covenant Period

To address the issue that a fairly large number of new flats will be completed in the short term, the Government proposes to extend the period of the building covenants of development projects which originally will expire between 1 November 2003 and 31 October 2004 for one year without additional charges. Subject to the conditions of individual sites, building covenants lasting three to five years are normally given. A developer is required to complete the development of a site within the prescribed period after acquiring the site or modification to the land lease. The Government hopes that the proposed concessionary measure can provide the developers with flexibility in adjusting the completion dates of their development projects according to market situation before offering them for sale. The Lands Department will later issue practice note to the industry to explain the details.

(d) Disposal of Surplus Home Ownership Scheme (HOS) Flats

On the other hand, to carry through the Government's policy objective of withdrawing from the private property market, I announced last year that, except for a small number of unsold and returned flats, the production and sale of HOS flats would cease indefinitely. I would like to reiterate today that we will follow through this policy. We will propose to the Housing Authority that no unsold and returned HOS flats will be offered for sale as subsidised housing before the end of 2006. There are now about 10 000 HOS flats which are completed or under construction but have never been offered for sale. The Housing Authority is actively exploring various disposal options.

(e) Tenancy Control

The final point I want to raise is that the Government has undertaken a comprehensive review of the Landlord and Tenant (Consolidation) Ordinance, with the objective of relaxing all excessive protection of security of tenure and revitalising the rental market to attract more property investors, which will benefit the overall property market. In fact, we have already submitted the Landlord and Tenant (Consolidation) (Amendment) Bill 2003 to the Legislative Council for consideration in June this year. I hope to secure an early passage of the Bill.

The Economy and the Property Market Showing Signs of Recovery

The performance of the property market is closely linked with the economy. In the second quarter of this year, property prices fell by 5 per cent to 10 per cent at one point as a result of the substantial blow brought about by SARS on Hong Kong's economy and property market. Now that SARS has been over, the local economy is starting to improve, and the property market is becoming active. According to statistics from the Land Registry, the number of sale and purchase agreements of properties has been on the rise since May. Take the primary market as an example, the number of property transactions more than doubled from over 1 200 in May to over 2 700 in August. As regards the secondary market, the number of property transactions during the same period increased from over 2 800 to about 3 800, rising by as much as 32 per cent and reaching a record high in four months. Although the number of registered transactions in September fell slightly, latest indications are that the actual number of transactions last month recorded a substantial rise, which will be reflected in the number of registered transactions in October.

Looking from a macro-perspective, Hong Kong's economy is showing good signs of recovery, as shown by the following favourable news and statistics in recent months:

(1) The export figures for July and August remain strong with an average monthly growth of 7.3 per cent in export value, while exports to some of our major trading partners in Asia maintain a double-digit growth.

(2) With the introduction of the "individual visit" scheme for Mainland visitors, the number of visitors to Hong Kong has increased significantly. The total number of Mainland visitors for July and August was 1.64 million, which represents a sharp increase of 34 per cent over the same period last year. According to the statistics of the Immigration Department, the number of Mainland visitors to Hong Kong exceeded 338,000 in the National Day Golden Week just passed, representing an increase of 20 per cent over the same period last year. The boom of the tourism industry helps to boost the business of the service, retail and catering industries, thereby creating new employment opportunities.

(3) After signing the main parts of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in late June, the Hong Kong Government and the Central Government also signed the Annexes to CEPA on the implementation details in late September. This will enable the business and professional sectors to further explore their business opportunities in the huge Mainland market or expand their Mainland

business.

(4) The Government has announced the introduction of the Capital Investment Entrant Scheme which will be open to application from 27 October 2003 onwards. We believe that the Scheme will help the inflow of investment funds, which will benefit our economy by adding impetus to activities in the financial and property markets.

(5) With the bank deposits adding up to more than \$3,300 billion, and the interest rate remaining at its 25-year low, huge sums of money are seeking opportunities for good investment returns.

(6) Deflation and unemployment rates are beginning to show signs of abatement.

The Government estimates that the GDP will grow by as much as 2 per cent this year, and many securities and investment organisations are predicting a stronger 3 per cent to 5 per cent growth in Hong Kong's GDP in the coming year. The future economic prospects of Hong Kong are encouraging. This will hopefully boost public confidence and hence the demand for properties.

Conclusion

I have always firmly believed that so long as the Government can carry through and consolidate its housing policy, and work towards the objective of "small government, big market", the private property market will become active again and develop in a steady and healthy way when the economy further improves. I am optimistic about the long-term development prospects of the property market.

Lastly, no matter you consider my announcement today as the so-called "tenth measure" or as a "non-measure", I would like to tell you that I have only one "measure", which is to gain the public's trust that the Government is steadfastly committed to a clear, comprehensive and consistent housing policy. As long as we continue to convey this clear and adamant message to the Hong Kong people, public confidence in the property market will be restored.

Thank you, President.