

# First Time Home Purchase: Strategic Options



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# Underlying Premise

- This study examines options for helping first time purchasers within specific income limits to procure a home for their own accommodation.
- Not concerned with purchase of properties for investment or speculation purposes.

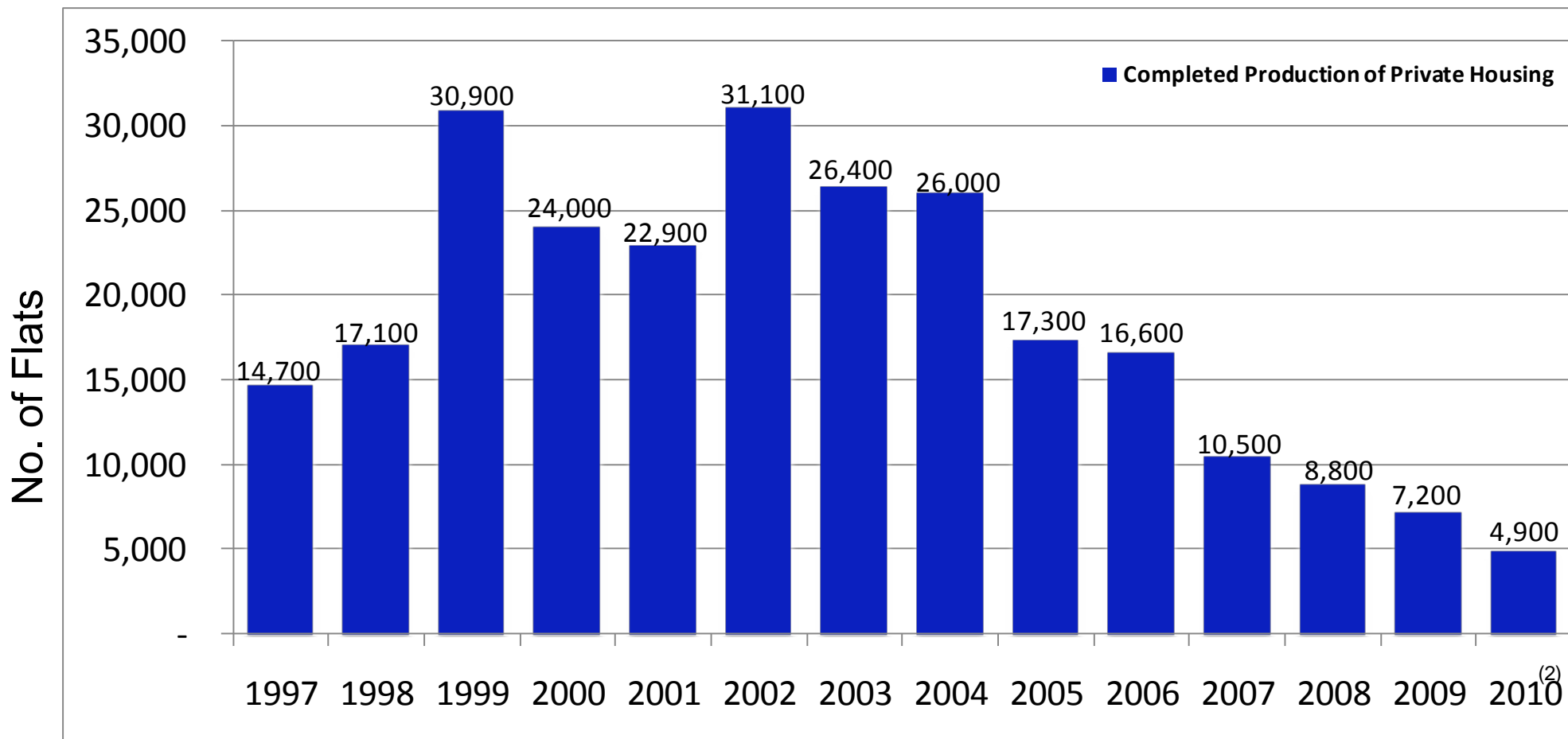
# Supply Gap

- Land disposed of by tender/auction, private treaty grant, lease modification and land exchange went down from 205.2 ha in 1996/97 to 42.7 ha in 2004/05.
- In recent years, the Application List Arrangement and the suspension of regular land auctions led to low supply of new private flats.

# Supply Gap

## Actual Completion of Private Residential Units<sup>(1)</sup>

Up to 31 March, 2010



1) Excluding Village Housing; 2) Figure for 2010 is up to the end of March only.

# Affordability

- As a result of the shortage in supply, private residential prices of both first- and second-hand flats have moved up nearly 40% in the last 18 months.
- Fewer and fewer lower-end flats in the market.
- Average private housing rents up from \$14.24/s.f (Jan 2009) to \$18.81/s.f. (Jul 2010), representing an increase of 32%.
- Recent wages only moved up by about 1% - 3%.
- Both median mortgage to income ratio and median rent to income ratio have gone up: affordability gap getting bigger.

# Latest Property Prices

	2009		(Jan-Jun) 2010	
<b>Average Price per Flat</b>	\$3.62M		\$3.83M	
<b>Average Price New Flats</b>	\$7.67M		\$7.87M	
	HKI	\$18.88M	HKI	\$13.23M
	KLN	\$9.74M	KLN	\$9.39M
	NT	\$4.77M	NT	\$6.33M
<b>Average Price Second-hand Flats</b>	\$3.04M		\$3.36M	
	HKI	\$5.34M	HKI	\$5.77M
	KLN	\$2.86M	KLN	\$3.34M
	NT	\$2.15M	NT	\$2.38M

# Latest Property Prices

	January 2009		July 2010		Percentage Change
<b>Average Price per Flat (per square foot)</b>		\$3,435		\$4,778	+39.1%
	HKI	\$4,906	HKI	\$7,126	+45.3%
	KLN	\$3,927	KLN	\$5,420	+38.0%
	NT	\$2,799	NT	\$3,900	+39.3%

# Current Problems

- Historically PRH and assisted home ownership have co-existed, notwithstanding ups and downs in the private market – two parallel approaches in HK’s housing policy framework.
- Staged subsidy is also a significant feature: from least subsidized (assisted home ownership) to most subsidized (PRH).
- The 2002 moratorium on all forms of assisted home ownership (new production and unsold flats and all loan schemes) created an “all or nothing” situation.



# Current Problems

- Given the current high property prices, households above the PRH Waiting List income limit (e.g. \$16,916 per month for a 4-person household) have practically no prospect of buying a home for their own use.
- A renting household may eventually, upon retirement, fall back on public rental housing, adding burden to the Government.

# Policy Recommendations

# Targets for Assistance

- 1) For households above PRH Waiting List and below SCHS income limits; and
- 2) For first time purchase for own accommodation purpose; and
- 3) For flats up to \$3 million.

# 1. Zero Downpayment

- Government to provide, or grant land to organizations to provide, **flats with zero downpayment** for eligible households at lower income levels.

## 2. Increase Land and Flat Supply

- **Steady supply of sites** for auction and from Application List to ensure timely production to meet end-user demand.
- **Regulate and expedite pace of processing applications for lease modification** (e.g. agricultural land to residential land use) at sub-planning level.
- **Incremental penalty** on idle or delayed development of land holdings.

# 3. 'No Frills' Production

- Encourage the production of “no frills” premises, i.e. estates without luxuries such as clubhouse, sky gardens, grand entrance, etc, which increase both the purchase price and recurrent expenses.
- Government can influence organizations such as MTRC and URA to develop this type of flats; or grant land for such development.
- (2)+(3) can help lower the price of private residential premises.

## 4. Early Withdrawal of MPF for Downpayment Purpose

- MPF contributions are meant for retirement protection. A home is a life-long asset and vital for retirees. Use of MPF for home purchase is within the spirit of MPF contributions.
- Eligible first time home buyers may be allowed, for once only, to make **early withdrawal of all or part of the accumulated MPF for downpayment purpose.**
- There should be an upper limit on the amount that may be withdrawn to avoid deliberate encashment through subsequent trading down of premises; and a requirement to return the amount in case the flat is sold within say five years.

# 5. Mortgage and Tax Relief

- Provide **underwriting** to eligible households **for longer mortgage period and interest fluctuation protection** – reduce heavy burden in the early years of a mortgage for eligible first time home purchasers.
- Offer additional **tax relief on mortgage interest** to eligible first time home purchasers.
- **Waive stamp duty** payment for eligible first time home purchasers with a live-in requirement of say five years.



# 6. Shared Ownership Scheme

- Eligible applicants may purchase 50% of a flat and **co-own the premises with an intermediary** designated by the Government.
- The applicant pays a concessionary rent for the other 50% of the flat, and has the option to buy back from the intermediary this 50% at the original price before the end of a fixed period.
- The rent already paid, or part of it, would form part of the final purchase payment.
- The scheme may take a variety of forms to meet the needs of the applicants and the ability of the intermediary.

**Thank You!**