IPTI Xtracts

Property Tax and Assessment News from Around the World

CHINA – February 2017

In Hong Kong home prices have risen 370 per cent to new record

Property prices in Hong Kong are among the most unaffordable in the world, making so called 'coffin homes' common in the financial hub of more than seven million people.

Hong Kong's existing home prices have climbed to a record, fuelled by a surge in demand from local buyers and investors despite taxes and mortgage curbs designed to rein in prices.

The Centaline Property Centa-City Leading Index, which tracks sales in the secondary market, rose to 147.74 for the week ended Feb. 19, surpassing the previous high of 146.92 reached in September 2015. The index has rebounded 16 percent since home prices bottomed at the end of March.

"The market is hot right now, not only end users but investors have also come back," said Wong Leung-Sing, associated director of research at Centaline Property Agency. "The government says interest rates will rise and the supply will increase and there's no need to buy now, but nobody believes that."

A surge in demand from local buyers and investors has seen Hong Kong property prices rise to a new record high. Photo: David Paul Morris/Bloomberg.

The record prices come at a sensitive time for Hong Kong leaders ahead of a vote next month to elect a new chief executive for the city. Housing costs have dogged current chief Leung Chun-ying over the course of his five years in power, with measures including new taxes in November so far failing to tame soaring property prices.

The city has the world's priciest property market, with home prices rising 370 per cent since a six-year slump ended in 2003. The lack of affordability has stoked discontent and has lessened Hong Kong's competitiveness with other Asian financial hubs like Singapore, which is popular among expatriates for its less expensive housing.

High stamp duties targeted at all but first-time local buyers were the centerpiece of the government's push to finally cool the housing market. New home sales as a proportion of total sales climbed from 10 per cent in 2010, before the government first began demand-curbing policies in 2012, to more than 30 percent last year, official statistics show.

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“I am surprised by end users’ enthusiasm about getting into the market,” said David Ji, Knight Frank LLP’s head of research and consultancy for Greater China. Prices in 2017 could fluctuate by plus or minus five percent, he said.

The government attempts to bring prices down by releasing more land for sale have also backfired, as land prices have kept rising due to aggressive bidding by Chinese developers anxious to build up land banks in Hong Kong.

For example, a unit of HNA Group Co. last month outbid Hong Kong developers including Cheung Kong Property Holdings Ltd. with a HK$5.5 billion ($709 million) offer for land in the former Kai Tak airport area, its third such purchase in as many months.

Mainland buyers have also been flocking to Hong Kong as a combination of surging prices and property curbs on the mainland make the city a more attractive alternative.

Hong Kong Property Market Sets New Records Despite Moves to Tame Prices

Hong Kong’s property market is setting new records, quashing attempts by the city’s leaders to tame surging home prices.

Existing home prices reached an all-time high in the week ended Feb. 19, according to the Centaline Property Centa-City Leading Index, which tracks sales of secondary homes. In another sign of buyer demand, two Chinese companies bid a record HK$16.9 billion ($2.2 billion) for a piece of waterfront land zoned for residential development.

“The market is hot right now,” said Wong Leung-Sing, associate director of research at Centaline Property Agency, citing demand from end-users and investors. “The government says interest rates will rise and the supply will increase, and there’s no need to buy now, but nobody believes that.”

The dubious milestones are the latest evidence that government attempts to bring prices down by imposing taxes have been thwarted by surging demand. They come at a sensitive time for Hong Kong leaders, ahead of a vote next month to elect a new chief executive for the city. Housing costs have dogged current chief Leung Chun-ying over the course of his five years in power, with measures including new taxes in November so far falling short of the mark.

The Centaline gauge surpassed its previous high reached in September 2015, and has rebounded 16 percent since home prices bottomed at the end of March. That’s despite the fact that transactions involving existing homes have slumped since the government increased stamp duties for all but first-time local homebuyers in November.

Unintended Effect

The home-buying curbs imposed by the government have also had the unintended effect of stoking demand for newly built homes as fewer existing homes are coming to market. Developers, who’ve enticed buyers with tax rebates and loan offers, have seen brisk sales for new apartments.

The Hang Seng Property Index, which tracks the shares of 10 property companies, climbed 15 percent this year, compared with an 8.9 percent increase in the Hang Seng Index. The property index fell 0.3 percent at 10:35 a.m. in Hong Kong.

The record price paid for land by the Chinese buyers is a signal that developers don’t see home prices declining anytime soon. The purchase works out to about HK$22,000 per square foot for the land alone, which is more than prices of existing homes in the area. Hong Kong developers have withdrawn some of their units on offer and raised prices after the Friday sale, the Hong Kong Economic Journal reported.
Logan Property Holdings Co. and KWG Property Holding Ltd. beat 13 other bidders including Cheung Kong Property Holdings Ltd. and Sun Hung Kai Properties Ltd., in the record government tender for a rare piece of land in Ap Lei Chau island. The area is linked to Hong Kong island by bridge, and was connected to the city’s extensive subway lines in December.

‘Bullish Signal’

"This is a very bullish signal, that the land price is more than completed property in that area," said Denis Ma, head of Hong Kong research at Jones Lang LaSalle Inc. "People look at that and say that in the next couple of years pricing is going to be a lot higher."

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KWG Property fell 2.5 percent in Hong Kong, as Logan Property rose 0.9 percent.

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Hong Kong has the world's priciest property market, with home prices rising 370 percent since a six-year slump ended in 2003. The lack of affordability has stoked discontent and has lessened Hong Kong's competitiveness with other Asian financial hubs like Singapore, which is popular among expatriates for its less expensive housing.

China can manage financial risks if property tax introduced - state media

China could manage the resulting financial risks if a property tax is introduced and causes the housing market to correct, a state newspaper said on Monday in a front-page commentary that sought to dispel fears that such a tax would burst a price bubble and spark a calamitous rise in bad loans for banks.

"The risks are overall manageable, despite the possibility of bringing short-term shocks to the market," the Economic Information Daily said, estimating China would be able to weather a 20 percent decline in house prices.

China has for years mulled an annual property tax, which could deter speculation in real estate, though little progress has been made due to resistance from stakeholders, such as local governments who heavily rely on land sales for revenue.

Only Shanghai and Chongqing have implemented a limited property tax as a pilot program since 2011.

Prices of new homes in China surged 12.4 percent last year, the fastest rate since 2011, leading more than 20 cities to introduce property curbs to cool the market since October.

Concerned by the stubbornly strong market, China's leaders have called a "long-term mechanism" to be established quickly to restrain property bubbles and prevent price volatility. President Xi Jinping said at the end of last year that authorities would use financial, fiscal, tax, land, and regulatory measures to keep a rein on the property market in 2017.

"China issued 4.96 trillion yuan ($721.54 billion) of new mortgages to individuals in 2016, while outstanding mortgages held by individuals rose 35 percent to 19.14 trillion yuan." Fitch Ratings said in a recent report.

"We still believe growth in mortgage lending could continue to add to risks in the banking sector - with fast-growing, mid-tier banks the most vulnerable," the credit ratings agency said.

China is drawing up plans for a nationwide property tax, and commodity markets are spooked

Base and bulk commodities had a bad session overnight, recording some substantial falls in the process.

While some put the weakness down to disappointment that Donald Trump may delay his mooted infrastructure investment plans back to 2018, there was another factor that almost certainly contributed to the unusually large price slide.

China is currently conducting preparatory work for a nationwide property tax.

As the world's largest consumer of commodities, and with residential construction a large component of that demand, it's easy to understand the reaction seen in commodity prices overnight.

Just have a look at the performance from Chinese commodity futures overnight.

SHFE Copper ¥47,480
-2.61%
SHFE Aluminium ¥13,630
-2.75%

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SHFE Zinc ¥22,560
-2.67%
SHFE Nickel ¥87,550
-2.05%
SHFE Rebar ¥3,479
-0.94%
DCE Iron Ore ¥687.00
-4.05%
DCE Coking Coal ¥1,217.50 -0.37%
DCE Coke ¥1,664.00
-0.57%

According to Reuters, Lu Kehua, China's vice housing minister, said that plans were currently being drawn up for a nationwide tax on property, expanding on the measures introduced in Chongqing and Shanghai — two of the nation's largest cities — some six years ago.

Lu provided no specific details on the proposed tax.

His remarks followed those from his boss, Chen Zhenggao, China's housing minister, "that the property market faces many contradictions and problems in 2017, and there are increasing uncertainties".

"But I believe the positive aspects outweigh the negative ones and we have the ability and methods to stabilise the market," he told reporters on Thursday.

The statements from Chen and Lu followed the release of data earlier this week that revealed growth in Chinese new home prices continued to slow in January.

According to China's National Bureau of Statistics, new home prices grew 0.2% nationally last month, down from 0.3% in December and continuing the deceleration seen since policymakers in over 20 Chinese cities introduced tighter buying restrictions to limit rapid growth in late 2016.

Chen said that trend will likely continue, telling reporters that property prices will remain stable in the first quarter of the year.

"We are aware that the property market faces many contradictions and problems in 2017, and there are increasing uncertainties," Chen told reporters. "But I believe the positive aspects outweigh the negative ones and we have the ability and methods to stabilize the market."

The vice housing minister told reporters separately that preparatory work was now being done for a nationwide property tax, but he did not provide further details.

China's home price growth slowed for the fourth straight month in January after authorities slapped curbs on the property sector - a major contributor to the broader economy - over the past year as the concentration of price surges in the country's wealthiest cities stoked fears of a nasty crash.

Lu Kehua, vice housing minister, said the country's property inventory reduction efforts will be more effective in 2017 compared with last year, and the government will continue to crack down on irregularities in the market in 2017.

The government will accelerate the drafting of laws to regulate the rental market and will encourage developers to operate rental businesses, he added.

China's megacities of Chongqing and Shanghai have been the only two cities to enforce a pilot property ownership tax scheme since 2011, raising taxes on those with multiple homes to penalize speculators.

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Hong Kong property sales fall by almost 50%

A new stamp duty tax rate of 15% has significantly hit Hong Kong's property market activity, with sales falling by almost half in just one month.

Summary:

- Appetite for Hong Property has fallen dramatically following an increase in stamp duty tax in November 2016
- Month-on-month sales fell by 47% as usually popular new-build developments across the region became less attractive
- Knight Frank predicts that an abundance of supply and economic and political uncertainty will see residential prices fall by 5% in 2017

Hong Kong has experienced a significant property market slowdown thanks to the government's decision to raise stamp duty rates to 15%.

The new rates, applicable for all but local first time buyers, became law in November 2016. Residential sales immediately took a hit, falling by 47.3% month-on-month in December across all price ranges, as the combined effect of an expected seasonal slump and higher tax took hold.

Residential sales across the whole of 2016 dropped by 2.3% year-on-year even before the new stamp duty took effect, the latest analysis report from international real estate firm Knight Frank shows.

Even new build sales volumes were quiet in December, with a limited number of new launches because of the stamp duty rise. Resales were also sluggish as developers offered preferential terms to offset the effect of the heavy tax that made the units less attractive.

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The policy address announced in January reaffirmed the Hong Kong Government’s determination to increase the housing supply. The average annual supply is expected to reach 94,000 units in the coming three to four years, hitting an historic high.

But the Knight Frank analysis suggests that abundant supply, combined with economic and policy uncertainty, may drag down mass residential prices by about 5% in 2017.

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