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Property Tax and Assessment News from Around the World

CHINA – March 2017

No signs of a property tax in China, despite fears of a housing bubble

Home prices in the country jumped nearly 11% year-over-year in February

The Chinese government won't introduce a property tax this year, despite claims from academics, politicians and economists that it would help curtail the country's soaring home prices.

The annual National People's Congress, held this month, did not feature a discussion of the topic, the Wall Street Journal reported. A NPC spokesperson said a property tax will not make it onto the legislative agenda at all in 2017.

There have been concerns for months that China's property market is overheated, and some economists have expressed concern the Chinese government is not moving fast to deal with the problem.

Last month, home prices in the country were up nearly 11 percent year-over-year, the newspaper reported, citing official data released over the weekend. In some cities, home prices surged 30 percent in the last year, according to the newspaper.

In September, Wang Jianlin, CEO of Dalian Wanda Group, warned that China's market is now facing "the biggest bubble in history."

The country's vice housing minister, Lu Kehua, last month said the government should act quickly on introducing a property tax. However, with a Communist Party leadership transition due to take place this year, the government is nervous about making any changes that have major implications for the economy.

"The rich, the powerful and other interest groups… opposed the idea because they own better and large homes, and will have to pay more tax," Yilin Hou, a Syracuse University professor who studies potential tax impacts on China, told the Wall Street Journal.

Meanwhile, the Chinese government is stepping up its efforts to stop locals from buying real estate abroad. Some are skeptical about whether that will have any real impact on the way Chinese nationals invest. But New York City brokers last month told *The Real Deal* Chinese buyers are moving away from ultra-pricey pads and focusing on value-oriented deals.

China Kicks Property Tax to the Curb–For Now

This year it seemed China was finally going to make headway on an idea familiar to U.S. homeowners: a property tax.

For many Chinese families, owning a home is one of few options to build wealth, driving buying frenzies as people rush to purchase before prices soar. Imposing costs on homeowners through a property tax is seen as a way to tame such speculation, while also helping fund local governments.

Lu Kehua, China's vice housing minister, last month said the government needed to "speed up" a property-tax law. Economists and academics have long recommended the move.

Yet the annual National People's Congress came and went this month with no discussion of the topic. An NPC spokeswoman said a property tax wouldn't be on the legislative agenda for the rest of the year.

The momentum of China's property market sped up in February after a brief slowdown, with home prices rising 0.3% from the month before and up 10.6% from a year earlier, official data released Saturday showed.

The Chinese government is wary of any move that could rock the economy, especially with a major Communist Party leadership transition looming this year.

Resistance to a tax has come from the wealthy and local government officials. Part of the fear is it could force disclosures of officials' property holdings and raise questions about how they were acquired. That is a particular worry during a continuing antigraft campaign, though some officials may have become more used to such disclosures, Rosealea Yao, an analyst at Gavekal Dragonomics, said in a recent report.

Yilin Hou, a Syracuse University professor who has extensively studied the possibility of a property tax in China, says it should introduce one–"the earlier the better"–to stabilize the real-estate roller coaster of recent years. But he acknowledges the political challenge.

"The rich, the powerful and other interest groups…opposed the idea because they own better and large homes, and will have to pay more tax," he said.

China is unusual among the world's largest economies in not having a yearly tax on homes. Beijing never instituted one for fear of slowing the stampede as it opened the property market in the late 1990s. A 30% surge in housing prices in some cities last year prompted new calls for a tax to discourage the purchase of apartments solely for investment.

Three years ago, Yi Zi, a 45-year-old logistics worker, bought a one-bedroom apartment in the Beijing suburb of Yizhuang. He never lived in it, leaving it empty–but with no mortgage and no property tax, he had no carrying costs.
Late last year, he sold it for 1.5 million yuan ($217,050), banking a 25% return.

A property tax wouldn't dissuade him from buying another apartment as "there's not much else to invest in," he said. But if faced with a tax, he said he would likely have rented the property out.

The last time the issue was seriously discussed was in 2011, when China launched two property-tax experiments.

Chongqing, a sprawling megacity straddling the Yangtze River, rolled out a levy of up to 1.2% on luxury homes. Enforcement quickly became an issue: Some real-estate agents and homeowners say it remains unclear who is supposed to pay the tax.

One Chongqing resident, who bought her 365-square-meter (3,929-square-foot) villa about three years ago, says she never received a bill. "We know we have to pay, but they haven't told us how to pay or warned us of a fine," she said.

Another resident, the owner of a manufacturing company, bought a 410-square-meter (4,413-square-foot) villa with a river view about the same time. He said for two of the past three years he paid a 1% tax but the government hasn't forced him to pay for the third.

The Chongqing pilot was too small to make a meaningful difference, says Mr. Hou, the Syracuse University professor. City officials "designed it in that way, to stay away from any social unrest," he said.

The other pilot, in Shanghai, applied mainly to second homes, with an annual tax of up to 0.6% of their estimated value. It has had no noticeable effect: Shanghai housing prices rose more than 30% last year.

The broader concern about instituting a tax is the effect on home prices.

Ms. Yao, the Gavekal Dragonomics analyst, says a property tax wouldn't see house prices instantly plummet. But over time, a 0.5% property tax could lower the value of a home by 15%-20% as potential homeowners factor in the cumulative cost.

Zhou Yanwen and her husband are among the many Chinese balking at adding a cost. "We also have mortgages to pay each month," said Ms. Zhou, a 25-year-old researcher in Shanghai. She estimates a property tax of 0.5% a year could raise the monthly costs for her apartment by 20%.

Mr. Hou, meanwhile, keeps pitching his recommendations for a property tax to central and local government officials, including adopting the lowest possible tax rate of 0.1%-0.5%. He said in recent interactions, officials have seemed "very open."

Flexibility key to China's future property tax system

It will take time and a more thoughtful policy plan for China to implement property tax in the future, according to Virginia Huang, managing director of advisory and transaction services at Commercial Real Estate Services (CBRE) Greater China.

The Chinese government has been trying to squeeze out bubbles in the property market, with measures such as purchase limits and a lifted down payment ratio on second property purchases. Property tax, a common tool to manage overheated property investment in many developed countries, hasn't yet been introduced in China.

"Rolling out a nationwide property tax is not easy, the government needs to build a platform and infrastructure to support the online registration system first, which won't be completed according to the government timetable," said Huang.

Additionally, Huang pointed that it's more complicated when we think of property tax as part of the redesign of the entire real-estate related tax system. So, although the legislation is scheduled to be finalized within the 13th five-year plan period, the rolling out of the new tax policies would take more time.

In the US and Germany, the government introduced exceptions or reductions on property tax for residences used by the owner, and in Singapore the government has put a higher tax rate on luxury properties.

Those could be references for China, Huang said, however, we still have to consider the fitting problem, as China is a large country with so many different cities.

"I don't believe that a one size fits all policy would work nationally, so flexibility is necessary to allow the local practice," said Huang.

Property tax bill not to be discussed this year

There is no plan to submit a property tax bill to lawmakers for deliberation this year, a spokesperson for the annual session of China's top legislature said Saturday.

"There have been a lot of discussions on this issue, as such a bill involves a wide range of interests," Fu Ying, spokeswoman for the fifth session of the 12th National People's Congress (NPC), said at a press conference.

China's current housing tax mechanism mainly taxes development and sales of a property, without taxing home ownership or the market value of homes.

As part of the efforts to cool the property market amid growing public complaints over runaway housing prices, China introduced a trial property tax in cities like Chongqing and Shanghai in 2010.

A reform plan approved by the Third Plenary Session of the 18th Communist Party of China Central Committee in 2013 made clear that the legislation of taxes in the property sector would be accelerated.

No plans for NPC to discuss property tax

But China is eyeing enactment of a property tax Bill that may control soaring prices.

China's Parliament this year will not discuss the issue of property tax, which many believe could help rein in runaway property prices, a senior government official has said.

But the enactment of a property tax Bill has been included in the five-year plan of the National People's Congress (NPC), said Fu Ying, its spokesman, yesterday.

"There has been a lot of discussion on this issue as such a Bill covers a wide area and involves a wide range of interests," she added.

"As far as I know, there are no plans for the NPC to deliberate on a draft property tax Bill this year."

She was speaking to local and foreign media ahead of the opening of the NPC's annual session today.

The booming real-estate sector in China's first- and second-tier cities has raised concerns of a property market burst.

This could result in a hard landing for the world's second-largest economy.

It is widely acknowledged that property taxes could help keep a lid on the runaway prices to cool the property market.

However, in a year when the ruling Chinese Communist Party (CCP) will see a top-level reshuffle at its 19th Party Congress, observers have dismissed the likelihood of such a measure for it could destabilise the economy.

China introduced a pilot property tax programme in south-western Chongqing and Shanghai to test the waters in 2010.

But the unpopular policy never took off.

In 2013, a reform plan approved by the third plenary session of the CCP's central committee made it clear that the legislation of property taxes would be speeded up.

Fu yesterday noted that the slowing economy and the changing global environment have made companies more sensitive towards taxes and fees.

Reducing the burden on companies is important to reviving the economy.

It is one of the key challenges that need to be addressed through reforms, she added.

The NPC will be revising the small and medium-sized enterprises (SME) promotion laws so as to reduce the cost burden on SMEs.

Enacted in 2003, the law aims to develop SMEs, including ensuring a level playing field for them.

This year, the NPC standing committee will also look into the issue of non-tax revenues in order to introduce a law-based management of such revenues.

China aims to achieve full statutory taxation by 2020.

This means that the type of taxes, tax rates and from whom they are collected, will be based on laws passed by the NPC.

"All these are meant to provide a good environment for the healthy development of private companies," Ms Fu added.

China to defer implementation of property tax despite surging prices

China has no plans to implement a nationwide property tax this year, the spokeswoman for China's parliament said on Saturday, despite mounting expectations that such measures would soon be introduced to restrain surging property prices.

For years, China has 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 rely heavily on land sales for revenue.

"The implications of these laws are broad and involve multi-faceted interests, so there is much discussion surrounding this issue," parliament spokeswoman Fu Ying told reporters in Beijing.

"To my understanding, there are no arrangements to bring property tax draft laws before the standing committee for deliberation this year."

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

Property tax to stabilize housing prices, curb speculation

China's property tax, which is still in the pipeline, will have a modest impact on China's runaway housing prices in big cities by preventing major speculations, an economist told China.org.cn on March 1.

"When implemented, the property tax will help stabilize housing prices and keep unbridled speculations at bay," said Jia Kang, a tax expert and member of the Chinese People's Political Consultative Conference (CPPCC), the country's top political advisory body.

The world's second largest economy is seeking to maintain stability in the property market after the roller coaster ride of 2016, with measures including higher mortgage down payments and greater home purchase restrictions, to prevent surges in metropolises and the growing inventories in smaller cities.

"Houses are built to be lived in, not for speculation," Chinese President Xi Jinping said at a meeting of the Central Leading Group on Finance and Economic Affairs on Feb. 28.

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 restrictions to cool the market since October.

Xi called for a long-term mechanism to ensure market stability, with improved policies to stabilize home buying, guide market expectations and enhance land supply systems.

With relatively low costs to hold properties, many investors tend to purchase multiple houses and keep them off the market in hopes of further appreciation, which drives up housing prices in major cities wrestling with tight supply.

China has for years considered a country-wide property tax to curb speculation. It introduced a trial program in Shanghai and Chongqing in 2011 with the former targeting ownership of multiple houses and the latter focusing on high-end housing.

When asked about the lower-than-expected impact on both cities’ real estate market, Jia explained that the situation could be much worse if the taxes were not implemented.

"We should not expect too much influence on China's runaway housing prices, but pay more attention to its stabilizing results."

Home-buying restrictions may prove their effectiveness to cool down the market in the short term; but in the long run, the government needs to pull out more comprehensive policies combining a portfolio of measures in terms of finance, land-use, fiscal and taxation as well as investment, he added.

In a recent press conference, senior officials with China's Ministry of Housing and Urban-Rural Development revealed that related government agencies are revving up legislation efforts regarding the long-awaited property tax and will advance reform of the property market in time of need.

Hong Kong home prices surge to all time high in January

Home prices in Hong Kong, the least affordable city in the world, hit another all time high in January, government data showed on Tuesday.

The home price index in January rose 0.62 per cent to 309 from 307.1 in December, extending a 10 month-rise, according to data from the Ratings and Valuation Department. Prices rose 10.75 per cent on a year-on-year basis.

Prices have continued to rise despite government efforts to cool the sizzling property market.

In November, Hong Kong raised the stamp duty to 15 per cent of transaction values across the board, exempting local residents who do not own any property.

When the correction happens, it won’t be a huge one.

Large units of 70 to 99.9 square metres saw prices up 0.73 per cent in January on month, while small units in size of 40 square metre or below rose 0.59 per cent.

The rental index in January rose to 174.7, a gain on 1.04 per cent from December. It rose 3.5 per cent year on year, according to the Ratings and Valuation Department.

Denis Ma, head of research, Hong Kong at property consultancy JLL, said low interest rates are still adding fuel to the real estate market, while the launch of smaller, more affordable units has further boosted demand.

JLL forecasts that home prices will increase less than 5 per cent in 2017 given the incoming interest rate hikes and the possibility of new cooling measures.

“It could be a little bumpy,” Ma said. “But generally it looks like there is enough demand and the price will continue to go up.”

Ma said the aggressive land-bidding recently reflects bullish sentiment among developers, especially those from mainland China.

Last week, two Chinese developers paid a record HK$16.86 billion (US$2.17 billion) for a plot of residential land at Ap Lei Chau, topping market valuations by almost 50 per cent, making it Hong Kong’s most expensive lump-sum sale to date.

The price translates to HK$22,118 per square foot in land cost. Property agents expect apartments on the site to sell for at least HK$32,000 per sq ft, a record for the district.

The aggressive bidding prompted owners of large apartments across the city to raise their prices by more than 10 per cent, while developers also increased prices of unsold units,

“After you buy the land in sky-high deals, you will be very reluctant to lower your property prices,” Ma said.

However, some analysts believe the price appreciation is likely to end in the coming months amid growing supply.

Home prices are expected to fall 5 to 10 per cent in 2017 amid new supply of about 20,000 units, according to credit rating agency Standard&Poor's.

Property cooling measures and tightening capital controls on the mainland can also create pressure on property prices, said S&P analyst Matthew Chow.

"The government definitely needs to do something," Chow said. "They will likely roll out some demand-side policies going forward to keep prices under control."

Chow said the Hong Kong Monetary Authority might also lower the loan-to-value ratio to curb home buying.

"At the same time, liquidity is still abundant and Hong Kong households do have strong balance sheets," Chow added. "When the correction happens, it won't be a huge one."