IPTI Xtracts

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Owners of empty flats could be taxed under new plan to tackle Hong Kong's housing shortage

Finance chief Paul Chan did not specify if the tax would be on homeowners or developers, but analysts are sceptical if the plan will even come to pass, citing the challenges of imposing it on either group

Policymakers are studying the possibility of imposing a vacancy tax on property owners hoarding empty flats as the latest measure to tackle space-starved Hong Kong's acute housing shortage.

Financial Secretary Paul Chan Mo-po revealed on Thursday that the option, which would mark a radical and highly controversial policy U-turn, was on the table, saying the government was concerned about the sharp increase in the number of unsold flats last year.

However, while some lawmakers supported the idea, housing experts remained sceptical as to whether the government would go ahead with it, pointing out that the city's powerful property developers would be vehemently opposed to any such tax, and it would be next to impossible to force it upon private flat owners.

Hong Kong's residential property prices continue to surge to record highs despite the government's efforts to cool the overheated market by ramping up land supply and increasing stamp duties.

The latest statistics from the Rating and Valuation Department last month showed the home price index rising 1.27 per cent to 357.5 in January, hitting a record for 15 consecutive months – the longest stretch of gains since 1993.

During the previous administration's term from 2012 to 2017, officials repeatedly questioned the effectiveness of new measures such as rent control, or tax levied on vacant homes.

In an online interview on Thursday, Chan highlighted the surge in the number of empty flats last year.

“The government noticed that and has been studying the issue,” he said. “A vacant property tax is one of the measures being considered.”

The finance chief noted that by December, around 9,500 completed flats were left unsold. “That was a significant increase,” he said.

As of September 2017, there were 9,000 unsold flats in private developments, of which 31 per cent were in projects completed last year. This compared with 2,000 unsold flats from projects completed in 2016.

Some 43,657 flats, or 3.8 per cent of the city’s total, were vacant in 2016, according to official statistics.

Lawrence Poon Wing-cheung, a property expert at City University, said a vacancy tax would be a landmark change in the government’s stance.

“It can be considered a breakthrough; the government has always said it would be very hard to implement and it would not consider it,” Poon said.

At the same time, he cautioned that it would be almost impossible to implement.

“It’s not practical to tax individuals for vacant flats … the government doesn’t have the manpower to check all those empty flats,” Poon said.

One option would be to target unsold flats hoarded by property developers, he added, but that was likely to be met with stiff resistance.

“If there’s an economic downturn, developers will question why they should be punished since it’s not their fault that people are not willing to buy,” he said

Denis Ma, head of research at real estate services company JLL, agreed with Poon that the idea was easier said than done.

“I think the fact that they haven’t been able to do it even though they’ve talked about it for a very long time just goes to show that it’s actually quite difficult to enforce,” Ma said.

However, pro-establishment lawmaker Alice Mak Mei-kuen, chairwoman of the Legislative Council’s housing panel, welcomed Chan’s suggestion, suggesting the government should also look into rent control and subsidies for tenants.

The panel’s deputy chairman, Andrew Wan Siu-kin of the Democratic Party, said the impact of property market cooling measures had been limited, and it was time for the government to try something new.

Earlier this year, two overseas cities introduced taxes on unoccupied flats to combat rising property prices. In Australia, the government of Victoria imposed a “vacant residential land tax” on homes in Melbourne, while Vancouver, Canada, came up with its “empty homes tax.”

Both set the tax rate at 1 per cent of the value of a house and defined vacancy as being unoccupied for six months a year. Both cities required property owners to make declarations.

Hong Kong’s finance chief vows to get tough on private developers if vacancy tax plan goes through

Hong Kong’s financial secretary Paul Chan Mo-po declared on Friday he would have “no fear” confronting private developers if he were to press ahead with a groundbreaking vacancy tax for unoccupied flats in a bid to cool the city’s red-hot property market.

Chan was putting up the brave front at the Redefining Hong Kong debate held by the Post, where a panel comprising leading economists and tax consultants exchanged views over the annual budget blueprint Chan delivered last month.

A day earlier, he had dropped a bombshell when he revealed the administration was considering imposing a vacancy tax on property owners racking up empty flats, a measure which would mark a radical policy U-turn and bound to upset the city's property tycoons.

Asked on Friday if the proposed tax would only target private developers and how would he deal with the expected fierce opposition from them, Chan paused for 10 seconds before saying, to applause: "Of course, no fear."

He said the number of vacant units completed by developers which could be put on the market for sale stood at 9,500 at the end of last year, a sharp rise from the some 4,000 to 5,000 vacant flats recorded at the beginning of the year.

"If you compare to the figures before that, the level would be even lower," Chan told the panel.

"I can foresee, because of the hard work of the past few years and that the land supply has been meeting the target … completion in the coming five years would be 50 per cent more than the previous five years. I do not want to see vacant units in completed developments being held up. That is the logic."

During the lively debate, Chan and fellow panellists sparred over a range of issues, such as whether the government was spending too little or too much and if it was investing wisely for the future and how much was enough to be set aside in the reserves.

As a lawmaker in 2011, Chan once said it would be more than adequate for the city's fiscal reserves to be at 12 to 15 months of government expenditure.

But on Friday, he was more cautious in spelling out a figure, beyond saying he now had a better grasp of the issues Hong Kong was grappling with now that he was in government.

"We have not drawn a particular line as to the exact number of months … we better keep the expenditure within our affordability and I think that is a more sensible way in looking at it," he said.

Chan also took the chance in the forum to urge bureaucrats to come up with innovative policy ideas.

"Before I can spend money, there must be policy measures from different bureaus because resources [are] to support all these measures to be implemented," he said. "So first and foremost, different bureau have to come up with proactive, innovative policy measures to bring Hong Kong forward."

Speaking on the same panel, Andy Kwan Cheuk-chiu, director of the ACE Centre for Business and Economic Research, chided Chan for not spending enough in the budget to eliminate the city's widening wealth gap with the bumper surplus of HK$138 billion.

He questioned the rationale of offering a rate waiver to property owners – with a ceiling of HK$2,500 per quarter for each rateable property – for four quarters, while slamming the government for being "a bit stingy" in offering merely a one-off HK$2,000 grant to students in need.

"We have a huge wealth gap yet the government gives the money to the so-called rich – what about the poor?" Kwan said.

He called on the government to increase the subsidy for needy students and regularise it, arguing that narrowing inequality of opportunities would help relieve income inequality in the long run.

Another panellist, Agnes Chan, managing partner of Ernst & Young in Hong Kong and Macau, said given the city's ageing population, the government should consider offering tax concessions to both employers and employees to encourage older staff to continue working rather than retire.

She also urged Chan to conduct a comprehensive review of the tax system. "Our tax system is really ageing. For 42 years [since 1976], there is no full health check on our tax system," she said.

Franklin Lam Fan-keung, founder of think tank HKGolden50, acknowledged Chan's commitment to the city's long-term development in the budget, but argued it was important for the government to cut the red tape and get through the bottlenecks, such as the Legislative Council.