



Hong Kong – May 2018

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Hong Kong home prices rise for 25th straight month as record-breaking deals keep coming

Buyers afraid flats will get even more pricey if they don't act now, say analysts, as small flats lead the gains in April

The prices of lived-in homes in Hong Kong gained for a 25th straight month as the world’s most expensive property market shrugged off concerns about increased supply and an imminent rise in interest rates.

Flats at the smaller end of the spectrum saw the greatest price gains as flats in major housing estates sold at record prices.

An index of secondary-market home prices climbed 1.84 per cent to 375.9 in April, according to data released by the government’s Rating and Valuation Department on Thursday. That is faster than the 1.15 per cent gain in March.

The rental index advanced 0.42 per cent to 190.3, indicating an increase in leasing costs, the figures showed.

“Buyers are willing to chase after higher prices. They worry that flats will become more expensive if they do not act now,” said Derek Chan, head of research at Ricacorp Properties. “That explains why more homes have sold at record prices.”

The market has digested the likelihood of imminent interest-rate rises and the effect that will have on mortgage repayments, he said. Hong Kong’s housing shortage will not be eased any time soon, he added.

Owners just require paying an additional HK\$205 (US\$26.12) per month for every HK\$1 million mortgage loan they borrow on a 30-year term once a 0.5 percentage point increase interest rate, according to agents.

“It is widely expected that mortgage rates will increase by 0.5 percentage points this year. Such a small increase is unlikely to hurt buying sentiment, so home prices will continue rising,” said Chan.

Strong buying demand has pushed transaction prices at 30 Hong Kong housing estates to record highs, say agents.

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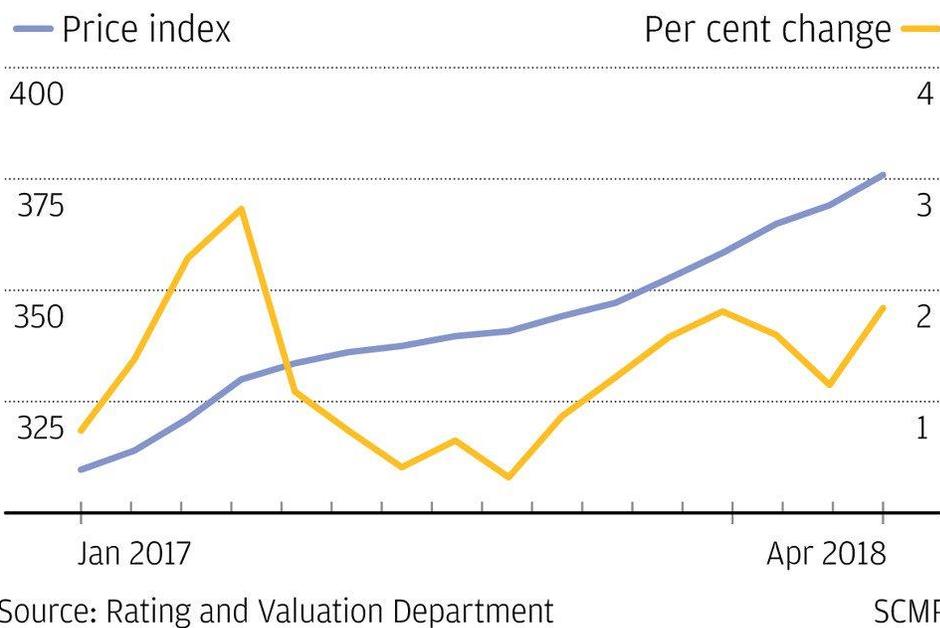
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For instance, a 549 square foot unit at Kingswood Villas in the northwestern New Territories district of Tin Shui Wai sold for HK\$6.2 million, the highest price for a unit of that size on the estate, said Many Wells Property Agents, which focuses on brokering flats in the New Territories.

Prices for smaller flats less than 430 square feet in size gained 1.94 per cent to 414.3 on the index.

Much larger homes, greater in size than 1,722 square feet, increased just 0.15 per cent to a reading of 328.4.

Rating and Valuation Department's home price index



In a survey conducted by Centaline Property Agency, results indicated more than 690 studio flats, or 71 per cent of this category due to be completed in 2019, had sold as of April, indicating the growing appeal of tiny flats.

Thomas Lam, senior director at Knight Frank said most home sales are currently dominated by the small- to- medium-sized flat market.

“Price growth pace will slow in the second half of this year, after a fast start in first six months of the year,” he said.

The positive mood among homebuyers has been further boosted by the sale of a large residential site in Kai Tak for HK\$25.16 billion, or HK\$17,776 per square foot, to Sun Hung Kai Properties on May 15. The record price paid at auction for a parcel of land at the site of the city’s former airport showed confidence in the property market outlook, according to analysts.

The land price was even higher than the city’s average home price of HK\$13,042 per square foot in April, according to data from Midland Realty. Home prices have gone up 4.96 per cent since January, said Midland.

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As Hong Kong considers a tax on empty property, how do other places deal with unoccupied homes?

A look at levies on vacant homes in six locations

Hong Kong's government is debating imposing a tax on vacant properties as a way of helping ease the city's acute housing shortage. A number of locations worldwide have similar taxes.

Paris

Introduced in 1999, tax is levied on property in certain municipalities that has been unoccupied for more than 90 consecutive days. Owners of the property pay the tax, which is 12.5 per cent of the property's value in the first year and 25 per cent from the second year.

Singapore

Introduced in 2011, the city state charges local developers additional stamp duty if they fail to sell 100 per cent of units in the development within five years. Foreign developers must sell 100 per cent within two years. The rate is 10 per cent of the purchase price of the site if bought before January 12, 2013 and 15 per cent for sites bought after that date.

UK

In 2013 Scotland and England imposed higher rates of council tax on owners of empty properties: up to 50 per cent higher for homes in England unoccupied for at least two years, and up to 100 per cent in Scotland for property vacant for at least one year. Wales followed in 2017 with up to 100 per cent extra council tax on properties vacant at least one year.

Israel

In 2014 the Israeli government granted municipalities powers to double local taxes on empty homes. It set the maximum period a house can be vacant at nine months. Owners are liable.

Vancouver

In 2017 the Canadian city began imposing tax on owners of residential property unoccupied for more than 180 days during a tax year that is not their principal residence. The tax is 1 per cent of the property's assessed taxable value.

Victoria state, Australia

From January 2018, the state government applied a tax on owners of residential properties in certain suburbs in the city of Melbourne that have been vacant for more than six months in a year. The tax is 1 per cent of the capital improved value of the property.

Hong Kong flat hoarders should face vacancy tax that 'causes them pain', property experts say

Chief Executive Carrie Lam considering adopting radical measure, but fails to give timeline on when it might come into force

The government could quite easily tax developers who hoard completed flats, analysts and property consultants said on Friday, but if it stops there and ignores homeowners doing the same thing, the policy will do little to ease Hong Kong's acute housing shortage.

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Eddie Hui Chi-man, a real estate economics professor at Polytechnic University said the government could identify unsold new flats in developers' hands, and levy a tax "high enough to cause them pain".

However, he and Leo Sin Yat-ming, a property marketing professor at Chinese University, stressed that buyers who had left their flats empty should also be targeted, though identifying them would be challenging.

It would, Hui said, incur "a huge amount of administrative cost and disputes".

Government figures showed that by the end of last year, 9,370 newly built flats in the world's most expensive property market were left unsold, accounting for 12 per cent of the 42,940 vacant flats in 2017.

Developers are believed to hold more than 40 per cent of vacant flats, with Sun Hung Kai Properties alone holding on to 1,000 of available inventory.

On Thursday, Chief Executive [Carrie Lam Cheng Yuet-ngor](#) suggested the government was leaning towards adopting the tax policy – more than a month after Financial Secretary [Paul Chan Mo-po](#) revealed the government was considering the radical measure.

[Developers' hoard of empty flats aggravates Hong Kong's housing crisis. Will a tax fix it?](#)

At Lam's monthly [Legislative Council](#) question-and-answer session, legal sector legislator Dennis Kwok asked if the leader would promise to quickly install the vacancy tax, so they could be pushed into the space-starved market.

The city leader said she had a "positive attitude" towards the policy, and felt "all suitable flats should be occupied for residence, instead of stockpiling, speculation or other purposes".

However, Lam refused to give a timeline for when the tax might be imposed, saying a comprehensive policy study and public consultations must be done first.

[Owners of empty flats could be taxed under new plan to tackle Hong Kong's housing shortage](#)

To encourage quick sales of newly built flats, Hui said the government could revise its land sale contracts quite easily, by adding a clause that specifies a time limit for developers to sell all they build.

In Singapore, for example, developers that fail to sell all flats within a set period have to pay the government extension fees; these can rise to 24 per cent of the land purchase price, pro-rated on the number of unsold units for a year.

The tax might end up helping rich people to buy larger flats at a lower price - Leo Sin Yat-ming, Chinese University professor

Thomas Lam, head of valuation consultancy at international property firm Knight Frank said, in foreign countries where vacancy tax was applicable to individual owners, such as Canada and Britain, the authority would check on the flats' record on using water and electricity, or encourage neighbours to tip off on empty premises.

However, Sin and Lam said such a policy would hardly work in Hong Kong. Lam said utility fees in Hong Kong were not high, and Sin said flat owners could easily fake the record by turning home appliances on from time to time.

Sin also warned the tax might provide little help for buyers struggling to afford the city's notoriously high prices.

He said in a primary market, completed and empty flats were usually larger apartments, or those with special features that developers only released when prices were favourable. Smaller flats were more often sold through presales before completion.

"With a vacant property tax, developers might sell large flats at less ideal prices to reduce the cost of stockpiling them," he added.

[Wealthy not at home with tax on empty Hong Kong flats](#)

"So, the tax might end up helping rich people to buy larger flats at a lower price, while ordinary people will continue to pay a price unaffected by the tax."

Wong Leung-sing, senior research director of property broker Centaline, said the government should not transfer its housing problem to the private sector by introducing the vacancy tax.

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“These problems cannot be solved by the vacant property tax ... helping people to buy private flats, or lowering the property price, should not be the government’s policy goals,” Wong said.

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