IPTI Xtracts

Property Tax and Assessment News from Around the World

# CHINA – July 2018



## Shanghai stock slide enters fourth day, as developers tumble on property tax concern

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China's stocks dropped for a fourth day on Wednesday, as concerns mounted that corporate earnings growth may have slowed in the second quarter and the government will speed up the pace of levying property taxes on more cities to rein in housing prices.

The Shanghai Composite Index slid 0.4 per cent, wrapping up a four-day, 1.8 per cent decline. The ChiNext gauge of smaller stocks fell 0.9 per cent as Citic Securities estimated earnings decreases in the companies in the three months through June 30. Hong Kong's Hang Seng Index slipped for a second day with a 0.2 per cent drop. China's offshore yuan traded in Hong Kong slid to its lowest level in a year.

Further adding to the turmoil on stocks was the latest comment from the spokesman for China's statistics bureau that policymakers will introduce the property tax at a faster pace amid rising home prices in some cities. Mainland's equities have been plagued this year by an intensifying trade war with the US and a drive to reduce debt among big companies.

"The factors that have been holding back stocks are still there and no new investors are willing to move in now," said Dai Ming, a fund manager at Hengsheng Asset Management in Shanghai. "The weak sentiment will probably linger."

Poly Real Estate Group led the declines among property developers on Wednesday, with the share dropping 3.3 per cent to 10.57 yuan. Risesun Real Estate Development lost 2.5 per cent to 7.50 yuan and China Vanke slid 2.2 per cent to 22.47 yuan.

## China to Speed up Introduction of Property Tax, Statistics Bureau Spokesperson Says

China is to speed up the introduction of a property tax, while also accelerating plans to bring in equal rights for renters and buyers, Mao Shengyong, spokesperson for the National Bureau of Statistics, said at a press conference to mark the release of a report on the country's economic performance so far this year.

The initiatives are aimed at promoting the stable and healthy development of the real estate market, while reflecting the principle that "housing is for living in, not for speculation," Mao said.

China's real estate investment rose 9.7 percent annually to CNY5.6 trillion (USD840 billion) in the first half, statistics bureau data shows, while housing sales hit CNY6.7 trillion, up 13.2 percent annually.


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Judging from property prices across 70 large and mid-sized cities, China's house prices have been generally stable, Mao said when asked by reporters whether home prices will fall in the second half of the year. However, housing prices have risen sharply in third and fourth-tier cities this year and some cities still face heavy pressure from rising home prices, he noted. There also remain structural problems in the property market, with some remote areas and places with large population outflows still suffering from unsold housing inventory.

China's real estate investment fell after initially picking up in the first half, with investment growth slowing steadily in the second quarter after peaking in the first, Zhang Bo, chief analyst at 58 Anjuke Institute told Yicai Global today. First and second-tier cities are expected to see a further cooling in their real estate markets and a further slowdown in property investment due to increased regulation, he added.

Though the market impact of adjustments to shantytown redevelopment policies in the first half of the year will not filter down to third and fourth-tier cities quickly, their psychological impact on property developers will be greater than their actual impact. Branded property developers are set to slow the pace of investment in these markets in the second half.

## Yuen Long villas cut prices by 25 per cent, becoming the first casualties of Hong Kong's vacancy tax

Several Hong Kong developers are cutting prices for the first time in three years, slashing as much as 25 per cent off their quotations, becoming the first casualties of the city government's vacancy tax that was imposed to deter hoarding and boost supply.

Paliburg Holdings and Regal International, two builders behind the Casa Regalia project, have knocked HK$10 million off the price tag of one of their 12 unsold villas in Yuen Long to HK$29.4 million (US$3.74 million). The villas, each measuring more than 2,000 square feet (186 square metres), have remained unsold since their completion in April 2016.

The discounts, after the city's median housing prices had risen for 26 consecutive months, follow the imposition on June 29 of a tax on unsold, completed real estate.

Residential projects – deemed to be "complete" a year after obtaining their occupation permits – are subject to tax if they remain unsold, part of a government strategy to pry loose empty units to alleviate shortage of available homes. Chief Executive Carrie Lam Cheng Yuet-ngor, who has made housing affordability a key priority of her administration, has been introduced a slew of measures to cool the market, boost supply and cap prices.

Paliburg and Regal aren't alone in succumbing to the tax. Another private developer owned by Kwok Kwei-wo and Tang Yuk-kwei, this week discounted two units of their village houses in Yuen Long by about 20 per cent, after having held on to both completed units for two years.

The discounts are adding to a steady drumbeat of forecasts that predict residential property prices to decline in the coming months in the world's most expensive urban centre. Citibank was the first to publish a downward forecast this week, predicting that prices would fall by 7 per cent in the second half.

"Developments with larger units in subprime locations may offer lower prices," said Vincent Cheung, deputy managing director for Asia valuation and advisory services at Colliers International.


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